



City of Newport, KY
Comprehensive Annual Financial Report
For year ending June 30, 2014



Status: From the river inward: Progress !

**CITY OF NEWPORT, KENTUCKY
COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For the Year Ended June 30, 2014

Prepared by:

**Finance Department
City of Newport**

CITY OF NEWPORT, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2014

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INTRODUCTORY SECTION



February 13, 2015

To the Mayor, City Commissioners and Citizens of the City of Newport, Kentucky:

We are pleased to present the Comprehensive Annual Financial Report of The City of Newport, Kentucky (the City or Newport) for the fiscal year ended June 30, 2014 (FY 14).

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City of Newport's management. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and the results of operations of the City. To provide a reasonable basis for making these representations, management of the City has established internal controls that are designed both to protect its assets and the integrity of its operations, and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP). All disclosures necessary to enable an understanding of financial activities have been included. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The Commonwealth of Kentucky requires that all general purpose governments publish, within six months of the close of its fiscal year, a complete set of financial statements prepared in accordance with GAAP, consistently applied, and audited by a firm of independent certified public accountants. Ray, Foley, Hensley, & Company, engaged by Newport to audit its FY 14 financial statements, issued an unqualified (clean) opinion on the financial statements for the fiscal year ended June 30, 2014, indicating that the City's financial statements are fairly presented in conformity with GAAP. The Independent Auditors' Report is included as the first component of the financial section of this report.

The independent audit of the financial statements of the City is part of a broader, federally mandated "Single Audit" designed to meet the special needs of Federal grantor agencies. The standards governing Single Audit engagements require an independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with Federal Program requirements.






The Financial Statements for the City consist of the Statements of Net Position, Statements of Revenue, Expense and Changes in Net Position, and Statements of Cash Flows. Notes to the Financial Statements are an integral part of the financial statements.

The Government Accounting Standards Board (GASB) requires that management provide a narrative introduction, overview and analysis to accompany the Financial Statements in the form of a Management's Discussion and Analysis (MD&A). This Letter of Transmittal is

designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent public accountants.

City of Newport Overview

The City of Newport, founded in 1795, is located in the northern most part of the state, situated directly across the Ohio River from Cincinnati, Ohio, occupies a land area of 3 1/2 square miles and serves a population of approximately 16,000. The City's operations are primarily funded through the levying of taxes with major revenues from taxation on:



-  Gross payroll
-  Insurance premium
-  Gross receipts (business)
-  Bank deposits
-  Personal and Real property

Overseeing operations of the City is the City Manager, Thomas Fromme. According to the International City/County Management Association, the council-manager form of government “combines the strong political leadership of elected officials with the strong managerial experience of an appointed manager or administrator. All power and authority to set policy rests with an elected governing body, which includes a mayor or chairperson and members of the council, commission, or board. The governing body in turn hires a nonpartisan manager who has very broad authority to run the organization.”

Council (or Commission)-Manager has been Newport's form of government since 1932 and under such the voters elect only the City Commission, which appoints a City Manager to administer municipal affairs under its supervision. The Commission acts only collectively, and its individual members, including the Mayor, have no administrative functions. The Board of Commissioners is elected on a non-partisan basis for a two year term, while the Mayor serves a four year term. The next election for the Office of City Commissioner was held on November 4, 2014 and Office of the Mayor will be held on November 1, 2016.

The City Manager, subject to the general supervision of the Commission, is in full charge of the administration of municipal affairs, preparing the budget, appointing and dismissing personnel, directing the work of municipal departments, and attending Commission meetings, in which recommendations on municipal business are presented and an active part in discussions is taken. In directing daily operations of the City, the Manager is responsible for ensuring effective and efficient government service. Every City employee ultimately answers to the City Manager, so the Manager has the right to hire and fire staff as appropriate and allowable by law.

Departments over which the City Manager supervises are as follows:

-  Police – An accredited, forty-one member department with divisions of administration, patrol, traffic, and investigation.
-  Fire – Thirty-three member department with divisions of administration, headquarters, education and prevention, emergency medical services, and South Newport.

- Community services – employs ten full-time and sixteen seasonal in the divisions of administration, Veteran's pool, public works, parks and recreation, refuse, and municipal building maintenance.
- Development services – under which new or rehabilitation development plan review, building permit, and code enforcement services are conducted.
- Finance and Administration – Five full time and two part time personnel perform accounts payable, accounts receivable, management analyzation and reporting functions, property tax collection, business and rental licenses and fees collection as well as budget assistance and tracking.

In addition to the aforementioned departments and related activities, the governing body and City Manager bear responsibility for funding the policemen's and firefighter's retirement fund and City employees' retirement fund as well as The Newport Foundation (a 501c3 arm of the City): therefore, these activities are included in the annual report.

The policemen's and firefighter's and the City employees' retirement funds are self-funded plans under which those who retired before 1988 are still paid. The funds are considered fiduciary funds, which are funds used to account for assets held in trust by the City in a trustee capacity and cannot be used to support any other program. Additional information on the fund can be found in the auditor's "Notes to the financial statements" on pages 47 - 53. The City has been a participant in the City and County Employees Retirement System (CERS) through the Commonwealth of Kentucky since August, 1988¹.

The Newport Foundation is a non-profit company established by the City for the main purpose of facilitating the City's many festivals and community special events. This organization provides citizens and corporate sponsors an avenue to make tax -free charitable donations to the City's community festivals. It is presented in the annual report as a "discretely presented component unit" with its own financial statements on pages 31 – 32. A discretely presented component unit is an organization that is legally separate and tax-exempt but the economic resources received or held are almost entirely for the direct benefit of the primary government or its constituents.

The Housing Authority of Newport (HAN) maintains close ties with the City, although it is **not** a component unit of the City as defined by the pronouncements of the Government Accounting Standards Board. The City is not financially accountable for the operations of HAN, has no responsibility to fund deficits or receive surpluses, and does not guarantee HAN's debt. The City provides HAN with grants from the City's CDBG (Community Development Block Grant) allocations for project specific development efforts. (see page 72 for additional information on this and other grants awarded to the City)

Funding for operations is planned through the annual budget which serves as the main financial control foundation. Department heads work with the Finance Department to create a requested budget. The City Manager uses these requests as the starting point for developing

¹ The Government Accounting Standards Board (GASB) passed GASB 68 in June, 2012. Effective in fiscal year 2015, this statement will require those that participate in "cost-sharing, multiple employer" plans, like CERS, to include a representative portion of the plans' unfunded liability on the City's balance sheet. The Kentucky League of Cities calculated Newport's portion at June, 2011 to be \$21,891,758.

the proposed budget for review by the Board of Commissioners. The final budget must be adopted by June 30th.





The City Manager can make transfers of appropriations between departments without the approval of Board of Commissioners but the Board of Commissioners must approve revisions to the budget that would alter total revenues and expenditures of any fund, noting that expenditures may not legally exceed budgeted appropriations at the fund level. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

Economic Condition and Outlook

Like every other major metropolitan area in the United States, metropolitan-Northern Kentucky was initially adversely impacted by the global economic recession. But many local and national economists have stated that metropolitan-Northern Kentucky and Cincinnati remain attractive places to live, work and invest because the fundamentals are quite strong, the weather typically moderate, the overall workforce is educated, a concentration of excellent colleges and universities can be found, and all major U.S. cities are accessible from the Cincinnati-Northern Kentucky International Airport. As such economists have stated that, given these fundamentals, the region's economic recovery could be better than that of the nation.

While other cities are tiptoeing out of the recession, Newport is practically running: the riverfront community has seen an explosion of growth during the last two years – and even more is on the horizon, indicated a November 8, 2013 Northern Kentucky Enquirer article. Notably, in the last fiscal year, with the addition of several retail establishments and chain eateries, arts and antiques stores, a medical facility, and a large mixed use project at 5th and Monmouth, hundreds of employment opportunities were created, thereby increasing the median wage in the community as well as the payroll and business tax base for the City.

Spotlighting:

-  Axis Alley/ Redondo Taqueria, and Dick's Last Resort opened with much anticipation in the Newport on the Levee, replacing vacancies from last fiscal year.
-  St. Elizabeth new medical building on Grand Avenue – although touted as the “Ft. Thomas” facility- is a 6-story medical facility housing specialties such as cardiac care and rehab, cancer care, vascular imaging, weight management, and biomedical and plant engineering that has brought another 100 jobs and an rise in occupational fees and payroll tax.
-  Monmouth Row – a \$10 million development with 100+ residential units, on-site parking and 2,200 sq. ft. of ground-level retail space will immediately impact businesses in the downtown and Levee areas as well as increase population numbers.
-  Newport Pavilion – Retail locations for AT&T, Banfield Pet Hospital, Buffalo Wild Wings, Dick's Sporting Goods, Family Allergy & Asthma, Sports Clips, TJ Maxx, and T Mobile

opened retail establishments leaving but a handful of spots to be populated and further increasing total employment opportunities.

Priorities for the next year

The City's focus remains to re-make Newport into an inviting place to live, work, and play. In pursuit of that goal, City Commissioners and the City Manager have identified a number of items on which to concentrate in the coming fiscal years including continued pursuit of and negotiations with businesses desiring to locate in the City, infrastructure, building, and equipment needs, riverfront mandates and continued improvements, fiscal soundness. Highlighting just the next year:

Economically

- Openings of Aspen Dental, AT&T, Banfield Pet Hospital, Bluegrass Urgent Care, Chik-fil-A, Chipotle, Dick's Sporting Goods, Family Allergy, Panera Bread, Sports Clips, Tire Discounters, and TJ Maxx, in the Pavilion furthering jobs, shopping opportunities, and business base.
- Openings of Axis Alley/Redondo Taqueria, and Dick's Last Resort in the Newport on the Levee.
- Additional professional relocations under negotiation to One Riverfront Place.

Structurally

- Completion of: Riverfront improvements, namely stairs and ramps at Riverfront Commons and the floodwall, Carothers Rd. expansion, and continuation of street sign replacement.
- Identification and prioritization of street and sidewalk repairs and/or resurfacing, median improvements.

Financially

- Reduction or elimination of tax anticipation note, continuation of emphasis on improved reporting to department heads and the Board of Commissioners, commencement of updated software modules, and issuance of bond anticipation note for purchase of used Trauth Dairy building for relocation of Public Works garage.

The City is in dynamic times, mending outdated financial policies and procedures, prioritizing delayed repairs and maintenance, creating five year plans for streets, equipment, and the municipal complex, while wooing entrepreneurs, expanding businesses, and artisans to create a unique community wherein all who work and play can find enjoyment.

Acknowledgements

The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the Finance and Administration Department with special thanks to Leonard Kuntz, Finance Officer, for his continued devotion to the City's financial standing and reporting.

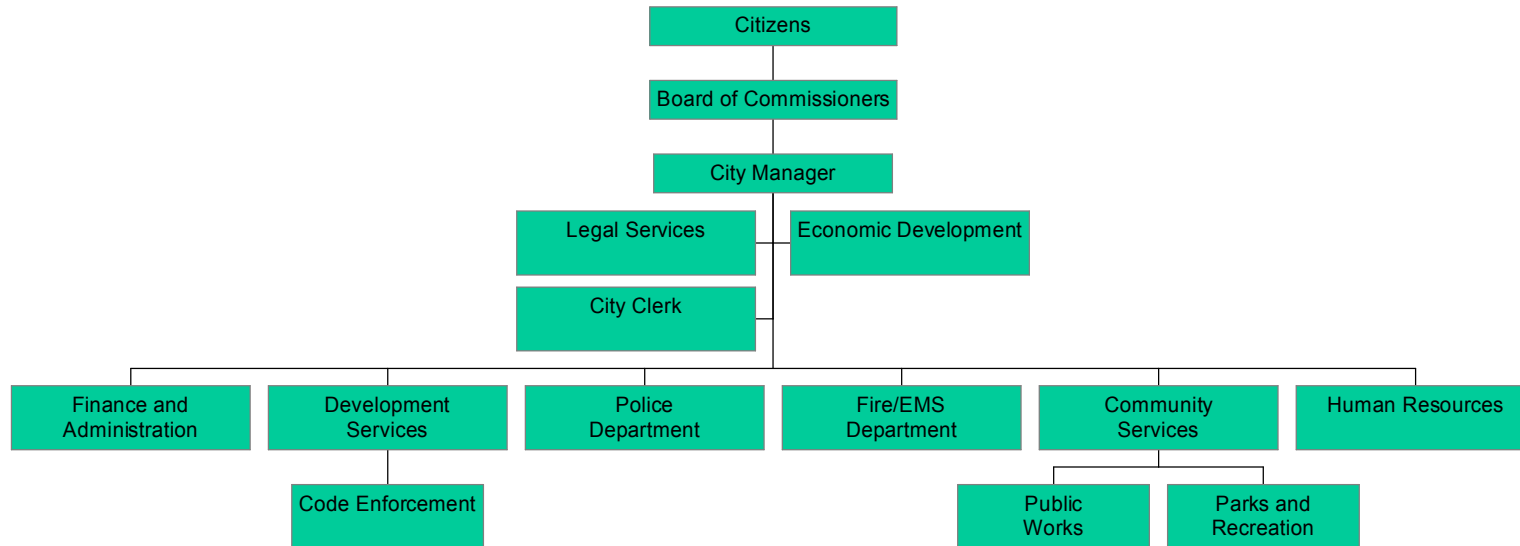
We wish to thank all of the City's departments for their assistance in providing the data necessary to prepare this report. Credit also is due to the Mayor, the Commission, and the City Manager for their unfailing support in maintaining the highest standards of professionalism in the management of the City of Newport's finances.

Sincerely and respectfully submitted,

A handwritten signature in blue ink, appearing to read 'C.R. Wirthlin', is positioned below the text 'Sincerely and respectfully submitted,'.

C.R. Wirthlin
Chief Financial Officer

City of Newport, Kentucky Organizational Structure



CITY OF NEWPORT, KENTUCKY

LIST OF PRINCIPAL OFFICIALS

For the Year Ended June 30, 2014

Mayor

Jerry Peluso

Commissioners

Thomas L. Guidugli, Jr.

Frank T. Peluso, Sr.

Elisabeth Fennell

John C. Hayden

City Manager

Thomas J. Fromme

Department Heads

Chief Financial Officer - C.R. Wirthlin

Chief of Police - Thomas Collins

Fire/EMS Chief - Gary Auffart

Development Services - Greg Tulley

Community Services - Doug Roell

Office of City Manager

City Attorney - Daniel R. Braun

City Clerk - Amy B. Able

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the Commission
City of Newport, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the discretely presented component unit of the City of Newport, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit of the City of Newport, Kentucky, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11-19, budgetary comparison information on pages 58-65, and pension schedules on pages 66-69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Newport, Kentucky's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2015, on our consideration of the City of Newport, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Newport, Kentucky's internal control over financial reporting and compliance.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
February 17, 2015



MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of City of Newport, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the City's basic financial statements, which begin on page 20.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 20 and 21) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 22. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

Reporting the City as a Whole

Financial Highlights

- ◆ The assets of the City exceeded its liabilities at the close of the most recent year by **\$18,043,997** (net position).
- ◆ The City's total net position increased **\$1,337,181** this year. Net position of governmental activities increased **\$4,943,684** and net position of business-type activities decreased by **\$3,606,503**. The changes in net position were the result of reclassification of assets and an unanticipated revenue event.
- ◆ As of June 30, 2014, the City's governmental funds reported a combined ending fund balance of **\$2,762,509**, an increase of **\$2,026,082** in comparison to the prior year.
- ◆ At the end of the current fiscal year, unassigned fund balance for the general fund was **\$2,293,558**, an improvement of **\$2,115,496** over fiscal year 2013. Throughout fiscal year 2014, the general fund improved to issue temporary transfers to other funds to support additional capital improvements.
- ◆ The City's total debt decreased by **\$2,879,005** due to the payment of principal on outstanding debt.

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net position* and changes in them. You can think of the City's net position, the difference between assets, what the taxpayers own, and liabilities, what the taxpayers owe, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base, franchise fee base, and the condition of the City's capital assets (roads, buildings, equipment and sidewalks) to assess the *overall health* of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- ◆ Governmental activities: most of the City's basic services are reported here, including the police, fire, emergency medical services, street maintenance, parks and recreation, and general administration. Payroll license fees, insurance license fees, property taxes, and gross receipts license fees finance most of these activities.
- ◆ Business-type activities: the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's refuse operations and Newport on the Levee parking operations are reported in this activity.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analyses of the City's major funds begin on page 22 and provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law. However, the Board of Commissioners establishes many other funds to help it control and manage money for particular purposes (i.e. Community Development Fund, Revolving Loan Fund, Capital Projects Fund). The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

Governmental funds: Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you

determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation beside the fund financial statements.

Proprietary funds: When the City charges customers for the full cost of the services it provides, whether to outside customers or to other units of the City, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

The statement of net position presents information on all of the City of Newport's assets and liabilities, with the differences between the two reported as net position. For the year ended June 30, 2014, net position changed as follows:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 6,717,256	\$ 5,600,562	\$ 6,750,170	\$ 10,260,036	\$ 13,467,426	\$ 15,860,598
Capital assets	28,610,213	26,622,714	28,499,167	29,539,302	57,109,380	56,162,016
Total assets	\$ 35,327,469	\$ 32,223,276	\$ 35,249,337	\$ 39,799,338	\$ 70,576,806	\$ 72,022,614
Long-term liabilities	\$ 20,257,021	\$ 23,214,695	\$ 25,195,000	\$ 28,015,000	\$ 45,452,021	\$ 51,229,695
Other liabilities	3,834,402	2,716,219	3,246,386	1,884,002	7,080,788	4,600,221
Total liabilities	\$ 24,091,423	\$ 25,930,914	\$ 28,441,386	\$ 29,899,002	\$ 52,532,809	\$ 55,829,916
Net position:						
Net investment in capital assets	\$ 7,779,586	\$ 4,268,083	\$ 1,839,167	\$ 1,524,302	\$ 9,618,753	\$ 5,792,385
Restricted	1,042,601	1,351,158	4,865,770	8,056,299	5,908,371	9,407,457
Unrestricted	2,413,859	673,121	103,014	319,735	2,516,873	992,856
Total net position	\$ 11,236,046	\$ 6,292,362	\$ 6,807,951	\$ 9,900,336	\$ 18,043,997	\$ 16,192,698

There was an increase of **\$4,943,684** in net position for governmental activities. The City has endeavored to better its cash position while reducing liabilities as much as possible. In addition, an increase in capital purchases means that depreciation of current assets is not outpacing the purchase of new assets.

There was an increase in net position of **\$3,092,385** for business-type activities resulting primarily from net operating income in the Newport on the Levee Fund and a fixed asset depreciation adjustment from prior years. Long-term liabilities were also greatly reduced by principal payments on the Series-A bonds.

Governmental Activities

Governmental activities increased the net position of the City of Newport by **\$4,943,684** during FY2014 as summarized on the following chart:

Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 1,017,135	\$ 1,191,785	\$ 5,759,821	\$ 8,718,946	\$ 6,776,956	\$ 9,910,731
Operating grants and contributions	1,098,265	1,158,359	-	-	1,098,265	1,158,359
Capital grants and contributions	4,176,657	1,813,415	-	-	4,176,657	1,813,415
General revenues:						
Property taxes	3,756,250	1,953,820	-	-	3,756,250	1,953,820
Other taxes	285,302	305,098	-	-	285,302	305,098
Payroll license fees	5,276,794	4,887,904	-	-	5,276,794	4,887,904
Gross receipts license fees	1,671,196	1,590,134	-	-	1,671,196	1,590,134
Insurance premium fees	2,981,708	2,763,745	-	-	2,981,708	2,763,745
Other licenses and permits	631,232	621,522	-	-	631,232	621,522
Franchise fees	701,437	651,868	-	-	701,437	651,868
Other uses of property	517,532	445,329	-	-	517,532	445,329
Grants - non-program specific	-	13,814	-	-	-	13,814
Other	15,944	17,769	304,395	303,561	320,339	321,330
Total revenues	\$ 22,129,452	\$ 17,414,562	\$ 6,064,216	\$ 9,022,507	\$ 28,193,668	\$ 26,437,069
Expenses:						
General government	\$ 1,811,096	\$ 1,747,163		\$ -	\$ 1,811,096	\$ 1,747,163
Police	4,864,165	4,958,910		-	4,864,165	4,958,910
Fire	4,325,418	4,287,637		-	4,325,418	4,287,637
Development services	1,712,783	699,017		-	1,712,783	699,017
Community services	3,124,678	2,587,440		-	3,124,678	2,587,440
Municipal complex	307,821	346,430		-	307,821	346,430
Interest on long-term debt	974,019	1,059,359		-	974,019	1,059,359
Solid waste collection	-	-	1,112,668	1,084,372	1,112,668	1,084,372
Parking facility operation	-	-	8,514,839	5,996,105	8,514,839	5,996,105
Total expenses	\$ 17,119,980	\$ 15,685,956	\$ 9,627,507	\$ 7,080,477	\$ 26,747,487	\$ 22,766,433
Increase in net position before transfers	5,009,472	1,728,606	(3,563,291)	1,942,030	1,446,181	3,670,636
Gain (loss) on disposal of assets	(49,000)				(49,000)	
Transfers	(16,788)	(17,585)	(43,212)	(42,415)	(60,000)	(60,000)
Increase in net position	\$ 4,943,684	\$ 1,711,021	\$ (3,606,503)	\$ 1,899,615	\$ 1,337,181	\$ 3,610,636
Net position - Beginning of year	6,292,362	4,981,216	9,900,337	8,821,048	16,192,699	14,548,014
Prior period adjustment		(399,875)	514,117	(820,326)	514,117	(1,220,202)
Net position - End of year	\$ 11,236,046	\$ 6,292,362	\$ 6,807,951	\$ 9,900,337	\$ 18,043,997	\$ 16,938,448

- ◆ Total revenues for the City's governmental activities totaled **\$22,129,452**, compared to **\$17,414,562** last year.
- ◆ Payroll license fees totaled **\$5,276,794** or **23.8%** of the total revenues. This was an increase of **\$388,890** from last year. The majority of increase stems from new development at the Newport Pavilion, staffing of St. Elizabeth medical center, and new tenants at the Newport on the Levee (see page 4).

- ◆ The second largest category of governmental revenues was property tax collection, which includes payments in lieu of property taxes, with a total of **\$3,756,250**, or **17%** of total revenues, an increase of **1,802,430**. **\$1,750,000** of property tax collection increase was due to a one-time event. Insurance premium license fees accounted for **\$2,981,708** or **13.5%** of total revenues. This was an increase of **\$217,963** over last year. Gross receipts license fees totaled **\$1,671,196** and accounted for 7.5% of total revenues. This amount represents an increase of **\$81,062** from the previous year. With development continuing and the economy recovering, all revenues are experiencing growth.
- ◆ This year total expenses for the City's governmental activities were **\$17,119,980** compared to **\$15,685,965** last year. Further explanation can be found below in ***Financial Analysis of the Government's Funds***.

Business-type Activities

- ◆ Revenues for business-type activities totaled **\$6,064,216** this fiscal year compared to **\$9,022,507** last year. Of this total, **\$5,759,821** or **97%** was from charges from services. Total revenue showed a decline of **\$2,958,291**, which stems from a cut in the sales tax reimbursement through the Commonwealth of Kentucky, a deterioration of the aquarium residual rent, and overall waning of parking fees at the Newport on the Levee parking garage.
- ◆ Expenses for business-type activities totaled **\$9,627,507** this fiscal year compared to **\$7,080,477** last year, with the majority of the decline coming from the Levee parking garage operations, which includes payments back to the guarantor of the bonds.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's governmental funds is to provide information on revenues, expenditures, and net spendable resources.

As of **June 30, 2014**, the City's governmental funds reported combined ending fund balance of **\$2,762,509**, an increase of **\$2,026,082** from the prior year. Of the total fund balance, the unassigned portion of the balance is **\$2,293,558**.

The General Fund is the main operating fund of the City. At the end of the fiscal year, the total fund balance in the General Fund was **\$2,334,031**, which represents an increase of **\$2,056,172** over the prior year. As it has in recent years, the City's amended General Fund budget showed a surplus. This surplus was 85% comprised of a one-time influx of a PILOT (payment in lieu of taxes) payment from Newport on the Levee garage. The Levee Garage bond agreement is a complex system which affords the City a PILOT payment only after several other conditions relating to the payment of the bonds, developers, and guarantors have been met. Those conditions did not line up until this fiscal year.

While revenues have been trending upward, due to inflation and union negotiations, it is merely a matter of time before expenses could outpace realized gains; therefore, the Finance Department continues to recommend items that will stabilize future budgets. Those are:

- ◆ Adopting a property tax rate that takes the maximum 4% increase allowed by Kentucky State Statutes. This could lead to an increase in total tax revenue of nearly \$100,000.
- ◆ Continual monitoring of departmental operational expenses.
- ◆ Reduced reliance on short-term borrowing.
- ◆ Strategic plan for capital needs replacement.
- ◆ Additional education for department heads on budget tracking.

The Revolving Loan Fund's fund balance decreased **\$29,399** and is now at a zero position. Long-awaited projects were completed using these funds for their intended purpose.

The Community Development Fund's fund balance increased **\$35,855**. At the end of the fiscal year, the total fund balance in the Community Development Fund was **\$428,446**. Funds from Community Development are being used to purchase blighted properties throughout the City for eventual use by the Newport Housing Authority.

The Capital Project Fund's fund balance decreased **\$95,344**. At the end of the fiscal year, the total fund balance in the Capital Projects Fund was **\$32**. Funds from Capital Projects are being used make significant infrastructure improvements in the City through the use of grants and funding through the General Assembly in Frankfort. Many grants are matching in nature and require the City to match at least 20% of the total grant. The City is usually responsible for any and all overruns. The matches must be included in the budgeted figures to accurately anticipate balanced funds.

Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements. See "Business-type Activities" above.

GENERAL FUND BUDGETARY HIGHLIGHTS

Toward the end of the fiscal year, the Board of Commissioners revise the General Fund budget to make any necessary adjustments to beginning fund balance and to increase/decrease revenues and expenditures to more closely reflect the anticipated actual revenues and expenditures for the year.

The amended General Fund revenue budget (excluding transfers) was **\$2,508,155** higher than the original budget amount. The most significant changes were as follows:

- ◆ **\$1,759,395** surge in property taxes due to one-time PILOT payment
- ◆ **\$350,000** increase to insurance premium taxes
- ◆ **\$258,240** addition to payroll license fees (occupational license fees)
- ◆ **\$210,850** increase to intergovernmental revenue (grants)

The revised General Fund expense budget (including transfers) was approximately **\$842,755** higher than the original appropriation. The changes to the budget were:

- ◆ General Government **\$24,495**
- ◆ Police Department **\$27,585**,
- ◆ Fire Department **\$33,040** [although actual lower],
- ◆ Development Services **\$(25,970)**,
- ◆ Community Services **\$(96,965)** [although actual higher],
- ◆ Capital Outlay **\$57,000**,
- ◆ debt service **\$477,850**,
- ◆ transfers out **\$357,500**

Actual General Fund revenues (including transfers in) were **\$481,667** higher than the amended budget numbers. There were several variances, both high and low, with the largest coming in payroll (occupational license fees), which was **\$264,750** more than budgeted, uses of property was **\$115,209** greater and property taxes, which totaled **\$10,745** under budget.

The actual expenses for the General Fund (excluding transfers) were **\$54,157** lower than the amended budget. Comprising this total were departmental results as listed:

◆ General Government (City Manager's Office and Finance Dept.)	\$ 10,321
◆ Police Department	\$ 2,512
◆ Fire Department	\$ 88,656
◆ Development Services (Building, Zoning, Code Enforcement)	\$(10,183)
◆ Community Services (Admin., Pool, Public Works, Parks & Recreation)	\$(121,729)
◆ Municipal Complex	\$ 68,358
◆ Capital Outlay	\$ 8,590
◆ Debt Service	<u>\$ 7,632</u>
	\$ 54,157 (less than 1% variance)

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt

The City's total long-term debt for governmental activities decreased by **\$1,295,018** and decreased by **\$1,355,000** for business-type activities during the fiscal year.

At year-end, the City had **\$48,579,677** in total outstanding notes, capital leases, compensated absences and bonds compared to **\$51,229,695** last year.

That is a decrease of **5.5%** as shown in the following table.

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Bonds payable (backed by City revenues)	\$ 11,225,000	\$ 20,645,000	\$ -	\$ -	\$ 11,225,000	\$ 20,645,000
Bonds payable (backed by fee revenues)	-	-	26,660,000	28,015,000	26,660,000	28,015,000
Compensated absences	1,089,050	860,064	-	-	1,089,050	860,064
Notes payable (backed by City revenues)	9,599,859	1,687,152	-	-	9,599,859	1,687,152
Capital lease obligations (backed by City revenues)	5,768	22,479	-	-	5,768	22,479
Totals	\$ 21,919,677	\$ 23,214,695	\$ 26,660,000	\$ 28,015,000	\$ 48,579,677	\$ 51,229,695

For additional information concerning the City's debt please refer to Note E to the financial statements, as well as Note G for information regarding the unfunded pension obligations.

Capital Assets

At the end of June 30, 2004, the City reported for the first time all of its infrastructure. The infrastructure is reported at cost along with the accumulated depreciation. At June 30, 2014, capital assets, before accumulated depreciation, amounted to **\$109,693,132** million including equipment, vehicles, buildings, park facilities, streets and sidewalks. This represents a net increase of **\$2,956,121** or **2.7 percent**, over last year.

Capital assets for governmental and business-type activities are summarized in the following table:

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land	\$ 6,641,209	\$ 6,690,209	\$ 9,196,274	\$ 9,196,274	\$ 15,837,483	\$ 15,886,483
Land improvements	37,542,989	36,190,949	26,281	26,281	37,569,270	36,217,230
Buildings and systems	5,931,949	5,931,949	40,075,937	39,991,054	46,007,886	45,923,003
Parking garage	-	-	-	-	-	-
Machinery and equipment	2,471,983	2,468,088	-	-	2,471,983	2,468,088
Licensed vehicles	4,426,740	4,708,054	-	-	4,426,740	4,708,054
Non licensed vehicles	275,994	243,494	-	-	275,994	243,494
Construction in progress	3,103,776	1,290,659	-	-	3,103,776	1,290,659
Subtotals	\$ 60,394,640	\$ 57,523,402	\$ 49,298,492	\$ 49,213,609	\$ 109,693,132	\$ 106,737,011
Accumulated depreciation	31,784,427	30,900,688	20,799,325	19,045,266	52,583,752	49,945,954
Net Capital Assets	\$ 28,610,213	\$ 26,622,714	\$ 28,499,167	\$ 30,168,343	\$ 57,109,380	\$ 56,791,057

This year's major additions included:

Construction in Progress on Carothers Road	\$ 1,697,410
Construction in Progress on Riverfront Commons	866,700
Miscellaneous street projects	400,297
	<u>\$ 2,964,407</u>

For additional information concerning the City's capital assets please refer to Note D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

As previously mentioned in the letter of transmittal on pages 4 and 5, overall economic outlook for the City is positive. It is noteworthy to also mention two tax increment finance district developments are planned, meaning that those particular areas will be eligible to receive tax funding from Campbell County and the Commonwealth of Kentucky in addition to the City for use specifically in those areas.

It is anticipated the TIFs will be activated by the developer within the next two fiscal years. They have been named Ovation and City Center, with Ovation slated to construct a multi-storied residential/business building.

For fiscal year 2014, General Fund revenues are projected to stay roughly flat compared to the previous year at **\$15,621,555**. The fiscal year 2015 revenue budget is tailored to increase the City's reserves gradually and reduce reliance on grant funds for capital expenditures.

Operating expenditures are expected to increase as well, due mostly to contracted wage and benefit growths for the union employees.

NEWPORT FOUNDATION: 501(c)3

The Newport Foundation operates as a component unit of the City with the mission of investing in the City through charitable donations for public programs and events as well as the furtherance of improving housing stock in partnership with the Housing Authority of Newport (registered as Neighborhood Foundations, Inc.) and its non-profit arms of Newport Millennium Housing Corporations III and IV.

For the fiscal year ended June 30, 2013 the net position of the Newport Foundation increased by **\$20,579** leaving a balance of **\$31,648** resulting from an increase in amounts due from other funds and assets held for sale. The Newport Foundation had a net loss from operations of **(\$41,687)** but an operational transfer from General Fund and gain on sale of fixed assets realized an overall gain of **\$20,579**.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager's Office or the Department of Finance and Administration at 998 Monmouth Street, Newport, Kentucky 41071.

BASIC FINANCIAL STATEMENTS

CITY OF NEWPORT, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business-type Activities	Total	Discretely Presented Component Unit
Assets				
Cash and cash equivalents	\$ 1,443,282	\$ 489,992	\$ 1,933,274	\$ 11,793
Receivables:				
Property taxes	208,960	-	208,960	-
Loans	423,018	-	423,018	-
Accounts	2,606,870	180,634	2,787,504	40,106
Intergovernmental	941,791	-	941,791	-
Accrued interest	-	151,229	151,229	-
Prepaid expenses	5,009	-	5,009	450
Assets held for sale	-	-	-	55,052
Noncurrent assets:				
Restricted cash	35,464	1,570,827	1,606,291	-
Restricted investments	-	4,423,843	4,423,843	-
Internal balances	45,725	(66,355)	(20,630)	20,630
Net pension asset	1,007,137	-	1,007,137	-
Capital assets:				
Land and construction in progress	9,744,985	9,196,274	18,941,259	-
Depreciable capital assets, net	<u>18,865,228</u>	<u>19,302,893</u>	<u>38,168,121</u>	<u>-</u>
Total Assets	<u>35,327,469</u>	<u>35,249,337</u>	<u>70,576,806</u>	<u>128,031</u>
Liabilities				
Accounts payable	1,629,251	303,052	1,932,303	43,507
Accrued liabilities	401,200	2,513	403,713	-
Accrued interest payable	141,295	1,128,900	1,270,195	-
Unearned revenue	-	346,921	346,921	52,876
Noncurrent liabilities:				
Compensated absences	1,089,050	-	1,089,050	-
Other noncurrent liabilities				
Due within one year	1,662,656	1,465,000	3,127,656	-
Due after one year	<u>19,167,971</u>	<u>25,195,000</u>	<u>44,362,971</u>	<u>-</u>
Total Liabilities	<u>24,091,423</u>	<u>28,441,386</u>	<u>52,532,809</u>	<u>96,383</u>
Net Position				
Net investment in capital assets	7,779,586	1,839,167	9,618,753	-
Restricted for:				
Debt service	-	4,865,770	4,865,770	-
Net pension asset	1,007,137	-	1,007,137	-
Other	35,464	-	35,464	-
Unrestricted	<u>2,413,859</u>	<u>103,014</u>	<u>2,516,873</u>	<u>31,648</u>
Total Net Position	<u>\$ 11,236,046</u>	<u>\$ 6,807,951</u>	<u>\$ 18,043,997</u>	<u>\$ 31,648</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
Functions/Programs:					Primary Government			Discretely Presented Component Unit
Primary government:		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental activities:	Expenses							
General government	\$ 1,811,096	\$ 231,970	\$ 45,250	\$ -	\$ (1,533,876)	\$ -	\$ (1,533,876)	\$ -
Police	4,864,165	242,472	353,291	48,500	(4,219,902)	-	(4,219,902)	-
Fire/EMS	4,325,418	477,499	219,504	-	(3,628,415)	-	(3,628,415)	-
Development services	1,712,783	15,055	-	1,127,871	(569,857)	-	(569,857)	-
Community services	3,124,678	50,139	480,220	3,000,286	405,967	-	405,967	-
Municipal complex	307,821	-	-	-	(307,821)	-	(307,821)	-
Interest on long-term debt	974,019	-	-	-	(974,019)	-	(974,019)	-
Total governmental activities	17,119,980	1,017,135	1,098,265	4,176,657	(10,827,923)	-	(10,827,923)	-
Business-type activities:								
Refuse	1,112,668	1,234,637	-	-	-	121,969	121,969	-
Newport on the Levee	8,514,839	4,525,184	-	-	-	(3,989,655)	(3,989,655)	-
Total business-type activities	9,627,507	5,759,821	-	-	-	(3,867,686)	(3,867,686)	-
Total primary government	\$ 26,747,487	\$ 6,776,956	\$ 1,098,265	\$ 4,176,657	(10,827,923)	(3,867,686)	(14,695,609)	-
Discretely presented component unit	\$ 246,228	\$ 204,541	\$ -	\$ -				(41,687)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					4,041,552	-	4,041,552	-
License fees:								
Payroll/Occupational licenses					6,947,990	-	6,947,990	-
Insurance premiums					2,981,708	-	2,981,708	-
Other permits and licenses					631,232	-	631,232	-
Franchise fees					701,437	-	701,437	-
Other uses of property					517,532	-	517,532	-
Interest					2,559	304,395	306,954	11
Miscellaneous					13,385	-	13,385	-
Total general revenues					15,837,395	304,395	16,141,790	11
Gain (loss) on disposal of assets					(49,000)	-	(49,000)	2,255
Transfers in (out)					(16,788)	(43,212)	(60,000)	60,000
Change in net position					4,943,684	(3,606,503)	1,337,181	20,579
Net position - beginning, as restated					6,292,362	10,414,454	16,706,816	11,069
Net position - ending					\$ 11,236,046	\$ 6,807,951	\$ 18,043,997	\$ 31,648

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Revolving Loan	Community Development	Capital Projects	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 259,370	\$ -	\$ 428,446	\$ 569,130	\$ 1,256,946
Receivables:					
Property taxes	208,960	-	-	-	208,960
Loans	-	-	423,018	-	423,018
Accounts	2,605,890	-	-	-	2,605,890
Intergovernmental				941,791	941,791
Prepays and other assets	5,009	-	-	-	5,009
Due from other funds	718,509	-	-	331,750	1,050,259
Restricted assets:					
Cash and cash equivalents	35,464	-	-	-	35,464
Total Assets	\$ 3,833,202	\$ -	\$ 851,464	\$ 1,842,671	\$ 6,527,337
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 373,530	\$ -	\$ -	\$ 1,192,639	\$ 1,566,169
Accrued liabilities	401,200	-	-	-	401,200
Due to other funds	354,534	-	-	650,000	1,004,534
Unearned revenue	369,907	-	423,018	-	792,925
Total Liabilities	1,499,171	-	423,018	1,842,639	3,764,828
Fund Balances:					
Unspendable	5,009	-	-	-	5,009
Restricted	35,464	-	-	-	35,464
Committed	-	-	-	-	-
Assigned	-	-	428,446	32	428,478
Unassigned	2,293,558	-	-	-	2,293,558
Total Fund Balances	2,334,031	-	428,446	32	2,762,509
Total Liabilities and Fund Balance	\$ 3,833,202	\$ -	\$ 851,464	\$ 1,842,671	\$ 6,527,337

Total governmental fund balances \$ 2,762,509

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	28,610,213
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.	792,925
Net position of internal service fund.	124,234
Net pension assets are not available to pay for current-period expenditures and are not reported in the funds.	1,007,137
Accrued interest payable on long-term debt.	(141,295)
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.	(21,919,677)

Net position of governmental activities **\$ 11,236,046**

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Revolving Loan	Community Development	Capital Projects	Total Governmental Funds
Revenues					
Property taxes	\$ 4,019,952	\$ -	\$ -	\$ -	\$ 4,019,952
Licenses and permits	10,560,930	-	-	-	10,560,930
Intergovernmental	1,220,790	-	975,500	2,689,180	4,885,470
Fines and forfeitures	102,172	-	-	-	102,172
Charges for services	983,802	-	-	-	983,802
Uses of property	1,218,969	36,000	73,845	-	1,328,814
Interest	1,402	508	314	158	2,382
Refunds and reimbursements	7,945	250,405	-	24,701	283,051
Miscellaneous	5,440	-	-	-	5,440
Total Revenues	18,121,402	286,913	1,049,659	2,714,039	22,172,013
Expenditures					
Current:					
General government	1,628,804	-	-	-	1,628,804
Police	4,600,633	-	-	-	4,600,633
Fire/EMS	4,012,694	-	-	-	4,012,694
Development services	536,883	7,541	1,088,210	-	1,632,634
Community services	1,646,214	-	-	582,222	2,228,436
Municipal complex	176,882	-	-	-	176,882
Capital outlay	48,410	-	-	3,120,642	3,169,052
Debt service:					
Principal	1,661,771	-	-	-	1,661,771
Interest	918,237	-	-	-	918,237
Total Expenditures	15,230,528	7,541	1,088,210	3,702,864	20,029,143
Excess (deficiency) of revenues over (under) expenditures	<u>2,890,874</u>	<u>279,372</u>	<u>(38,551)</u>	<u>(988,825)</u>	<u>2,142,870</u>
Other Financing Sources (Uses)					
Transfers in	79,720	-	74,406	893,481	1,047,607
Transfers out	(914,422)	(249,973)	-	-	(1,164,395)
Other financing source - note proceeds	8,042,767	-	-	-	8,042,767
Other financing use - cost of bond issuance	(55,612)	-	-	-	(55,612)
Other financing use - bond refunding	(7,987,155)	-	-	-	(7,987,155)
Total Other Financing Sources (Uses)	(834,702)	(249,973)	74,406	893,481	(116,788)
Net Change in Fund Balances	2,056,172	29,399	35,855	(95,344)	2,026,082
Fund Balances - Beginning	277,859	(29,399)	392,591	95,376	736,427
Fund Balances - Ending	\$ 2,334,031	\$ -	\$ 428,446	\$ 32	\$ 2,762,509

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds \$ 2,026,082

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Capital asset purchases capitalized	3,169,052
Depreciation expense	(1,181,053)

Governmental funds do not report the donation of new capital assets nor the loss or gain on disposals:

Donated capital assets	48,500
Loss on disposal of capital assets	(49,000)

Revenues in the statement of activities that do not provide current financial resources are fully deferred in the funds.	(91,238)
--	----------

Repayment of note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,661,771
--	-----------

Note proceeds issued to refund bonds outstanding is an other financing source in the governmental funds but increases long-term liabilities in the statement of net position.	(8,042,767)
---	-------------

Refunding of bonds outstanding is an other financing use in the governmental funds but decreases long-term liabilities in the statement of net position.	7,905,000
--	-----------

Pension costs are recognized as debt in the government-wide financial statements and not in the governmental funds.	(285,757)
---	-----------

Accrued interest on long-term debt is reported in the government-wide financial statements and not reported in the governmental funds. This is the change in the amount of interest accrued through year end.	26,373
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An internal service fund is used by management to charge the costs of certain activities, such as health and dental insurance to individual funds. The net revenues (expenses) of the internal service fund are reported with governmental activities.	(14,293)
--	----------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds, such as compensated absences.	(228,986)
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Change in net position of governmental activities	\$ 4,943,684
--	---------------------

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Business-type Activities-Proprietary Funds			Internal Service Funds
	Refuse	Newport on the Levee	Total Current Year	Health and Dental
Assets				
Current assets:				
Cash and cash equivalents	\$ 311,064	\$ 178,928	\$ 489,992	\$ 186,336
Accounts receivable (net of allowance)	180,634	-	180,634	980
Accrued interest receivable	-	151,229	151,229	-
Total current assets	<u>491,698</u>	<u>330,157</u>	<u>821,855</u>	<u>187,316</u>
Restricted assets:				
Restricted cash	-	1,570,827	1,570,827	-
Restricted investments	-	4,423,843	4,423,843	-
Total restricted assets	<u>-</u>	<u>5,994,670</u>	<u>5,994,670</u>	<u>-</u>
Noncurrent assets:				
Capital assets (net of depreciation):				
Land	-	9,196,274	9,196,274	-
Land improvements	-	4,234	4,234	-
Building	-	19,298,659	19,298,659	-
Total noncurrent assets	<u>-</u>	<u>28,499,167</u>	<u>28,499,167</u>	<u>-</u>
Total Assets	<u>491,698</u>	<u>34,823,994</u>	<u>35,315,692</u>	<u>187,316</u>
Liabilities				
Current liabilities:				
Accounts payable	78,605	224,447	303,052	63,082
Accrued liabilities	2,513	-	2,513	-
Accrued interest payable	-	1,128,900	1,128,900	-
Unearned revenue	-	346,921	346,921	-
Bonds payable, current	-	1,465,000	1,465,000	-
Due to other funds	66,355	-	66,355	-
Total current liabilities	<u>147,473</u>	<u>3,165,268</u>	<u>3,312,741</u>	<u>63,082</u>
Noncurrent liabilities:				
Bonds payable	-	25,195,000	25,195,000	-
Total noncurrent liabilities	<u>-</u>	<u>25,195,000</u>	<u>25,195,000</u>	<u>-</u>
Total Liabilities	<u>147,473</u>	<u>28,360,268</u>	<u>28,507,741</u>	<u>63,082</u>
Net Position				
Net investment in capital assets	-	1,839,167	1,839,167	-
Restricted	-	4,865,770	4,865,770	-
Unrestricted	344,225	(241,211)	103,014	124,234
Total Net Position	<u>\$ 344,225</u>	<u>\$ 6,463,726</u>	<u>\$ 6,807,951</u>	<u>\$ 124,234</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	<u>Business-type Activities-Proprietary Funds</u>			<u>Internal Service Funds</u>
	<u>Refuse</u>	<u>Newport on the Levee</u>	<u>Total Current Year</u>	<u>Health and Dental</u>
Operating Revenues				
Charges for sales and services:				
Refuse fees	\$ 1,186,401	\$ -	\$ 1,186,401	\$ -
Parking fees	-	2,999,955	2,999,955	-
PILOT fees	-	-	-	-
Aquarium and IMAX rent assignment	-	-	-	-
Tourism sales tax refund assignment	-	1,525,229	1,525,229	-
Penalties	48,236	-	48,236	-
Other services	-	-	-	1,104,869
Total Operating Revenues	<u>1,234,637</u>	<u>4,525,184</u>	<u>5,759,821</u>	<u>1,104,869</u>
Operating Expenses				
Cost of sales and services	1,112,668	1,601,276	2,713,944	1,219,339
Depreciation	-	1,639,136	1,639,136	-
Total Operating Expenses	<u>1,112,668</u>	<u>3,240,412</u>	<u>4,353,080</u>	<u>1,219,339</u>
Net Operating Income (Loss)	<u>121,969</u>	<u>1,284,772</u>	<u>1,406,741</u>	<u>(114,470)</u>
Non-Operating Revenues/Expenses				
Interest income	497	303,898	304,395	177
Interest expense	-	(2,314,541)	(2,314,541)	-
P.I.L.O.T Reimbursements	-	(875,000)	(875,000)	-
Developer - Reimbursements	-	(696,285)	(696,285)	-
Guarantor - Reimbursements	-	(1,388,601)	(1,388,601)	-
Total Non-Operating Income (Loss)	<u>497</u>	<u>(4,970,529)</u>	<u>(4,970,032)</u>	<u>177</u>
Transfer in (out)	<u>(43,212)</u>	<u>-</u>	<u>(43,212)</u>	<u>100,000</u>
Net Income (loss)	<u>79,254</u>	<u>(3,685,757)</u>	<u>(3,606,503)</u>	<u>(14,293)</u>
Net Position-Beginning Of Year, as restated	<u>264,971</u>	<u>10,149,483</u>	<u>10,414,454</u>	<u>138,527</u>
Net Position-End Of Year	<u>\$ 344,225</u>	<u>\$ 6,463,726</u>	<u>\$ 6,807,951</u>	<u>\$ 124,234</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	Business-Type Activities-Proprietary Funds			Internal Service Funds
	Refuse	Newport on the Levee	Total Current Year	Health and Dental
Cash flows from operating activities				
Cash received from customers	\$ 1,237,245	\$ 4,643,054	\$ 5,880,299	\$ 1,103,889
Cash paid for employee services and benefits	(148,943)	-	(148,943)	-
Cash paid to suppliers	(888,299)	(1,455,389)	(2,343,688)	(1,196,320)
Net cash provided (used) by operating activities	<u>200,003</u>	<u>3,187,665</u>	<u>3,387,668</u>	<u>(92,431)</u>
Cash flows from noncapital financing activities:				
Developer - reimbursement	-	(696,285)	(696,285)	-
P.I.L.O.T. receipt	-	875,000	875,000	-
P.I.L.O.T. reimbursement	-	(1,750,000)	(1,750,000)	-
Transfer to other funds	(69,524)	-	(69,524)	100,000
Net cash provided (used) by noncapital financing activities	<u>(69,524)</u>	<u>(1,571,285)</u>	<u>(1,640,809)</u>	<u>100,000</u>
Cash flows from capital and related financing activities				
Capital assets purchased	-	(84,884)	(84,884)	-
Guarantor - reimbursement	-	(1,388,601)	(1,388,601)	-
Interest paid on capital debt	-	(2,371,282)	(2,371,282)	-
Principal paid on debt	-	(1,355,000)	(1,355,000)	-
Net cash used by financing activities	<u>-</u>	<u>(5,199,767)</u>	<u>(5,199,767)</u>	<u>-</u>
Cash flows from investing activities				
Interest income	497	303,644	304,141	177
Net cash provided by investing activities	<u>497</u>	<u>303,644</u>	<u>304,141</u>	<u>177</u>
Net increase (decrease) in cash	130,976	(3,279,743)	(3,148,767)	7,746
Cash at beginning of year	<u>180,088</u>	<u>5,029,498</u>	<u>5,209,586</u>	<u>178,590</u>
Cash at end of year	<u>\$ 311,064</u>	<u>\$ 1,749,755</u>	<u>\$ 2,060,819</u>	<u>\$ 186,336</u>
Reconciliation of operating income to net cash used by operating activities:				
Operating income (loss)	\$ 121,969	\$ 1,284,772	\$ 1,406,741	\$ (114,470)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	-	1,639,136	1,639,136	-
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable	2,608	81,835	84,443	(980)
Increase (decrease) in accounts payable	75,854	145,887	221,741	23,019
Increase (decrease) in accrued liabilities	(428)	-	(428)	-
Increase (decrease) in unearned revenue	-	36,035	36,035	-
Net cash provided (used) by operating activities	<u>\$ 200,003</u>	<u>\$ 3,187,665</u>	<u>\$ 3,387,668</u>	<u>\$ (92,431)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014

		<u>Total Retirement Plans</u>
Assets		
Cash and cash equivalents		\$ 274,191
Investments		
Bonds	\$ 326,238	
Mutual funds	2,557,861	
Closed end funds	429,820	
Market backed securities	<u>315,362</u>	
Total investments		<u>3,629,281</u>
Total Assets		<u>3,903,472</u>
Liabilities		
Accounts payable		<u>-</u>
Total Liabilities		<u>-</u>
Net Position		
Held in trust for pension benefits		<u>3,903,472</u>
Total Net Position		<u>\$ 3,903,472</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2014

	Total Retirement Plans
Additions	
Contributions:	
Employer	\$ -
Total contributions	<u>-</u>
Investment earnings:	
Interest and dividends	185,252
Net appreciation in the fair value of investments, including realized gains	<u>234,904</u>
Total investment earnings	<u>420,156</u>
Total Additions	<u>420,156</u>
Deductions	
Benefits	636,128
Administrative expense	<u>16,805</u>
Total Deductions	<u>652,933</u>
Change in Net Position	(232,777)
Net Position-Beginning Of Year	<u>4,136,249</u>
Net Position-End Of Year	<u><u>\$ 3,903,472</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT
June 30, 2014

	Newport Foundation
Assets	
Current assets:	
Cash and cash equivalents	\$ 11,793
Prepaid expenses	450
Accounts receivable (net of allowance)	40,106
Due from other funds	22,784
Assets held for sale	<u>55,052</u>
Total current assets	<u>130,185</u>
Total Assets	<u>130,185</u>
Liabilities	
Current liabilities:	
Accounts payable	43,507
Unearned revenue	52,876
Due to other funds	<u>2,154</u>
Total current liabilities	<u>98,537</u>
Total Liabilities	<u>98,537</u>
Net Position	
Net investment in capital assets	-
Restricted assets	-
Unrestricted	<u>31,648</u>
Total Net Position	<u>\$ 31,648</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT
For the Year Ended June 30, 2014

	<u>Newport Foundation</u>
Operating Revenues	
Charges for sales and services:	
Special events	\$ 199,732
Miscellaneous	<u>4,809</u>
Total Operating Revenues	<u>204,541</u>
Operating Expenses	
Cost of sales and services	174,835
Contractual services	38,995
Intergovernmental expenses	25,936
Insurance	2,555
Materials and supplies	<u>3,907</u>
Total Operating Expenses	<u>246,228</u>
Net Operating Loss	<u>(41,687)</u>
Non-Operating Revenues/Expenses	
Operating transfer from General Fund	60,000
Interest income	11
Gain on sale of fixed assets	<u>2,255</u>
Total Non-Operating Income	<u>62,266</u>
Net Income	20,579
Net Position-Beginning Of Year	<u>11,069</u>
Net Position-End Of Year	<u>\$ 31,648</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
STATEMENT OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNIT
For the Year Ended June 30, 2014

	Newport Foundation
Cash flows from operating activities	
Cash received from customers	\$ 184,396
Cash paid to suppliers	<u>(302,861)</u>
Net cash used by operating activities	<u>(118,465)</u>
Cash flows from capital and related financing activities	
Proceeds from the sale of assets	<u>2,255</u>
Cash flows from investing activities	
Transfer from General Fund	60,000
Interest income	<u>11</u>
Net cash provided by investing activities	<u>60,011</u>
Net increase (decrease) in cash	(56,199)
Cash at beginning of year	<u>67,992</u>
Cash at end of year	<u><u>\$ 11,793</u></u>
Reconciliation of operating income to net cash used by operating activities:	
Operating loss	\$ (41,687)
Adjustments to reconcile operating income to net cash provided by operating activities	
Changes in assets and liabilities:	
Decrease (increase) in accounts receivable	(15,391)
Decrease (increase) in assets held for sale	(19,247)
Decrease (increase) in prepaid expenses	85
Increase (decrease) in accounts payable	(37,471)
Increase (decrease) in unearned revenue	<u>(4,754)</u>
Net cash used by operating activities	<u><u>\$ (118,465)</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Newport, Kentucky, (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described below.

Financial Reporting Entity

The City of Newport is a municipality operating under a City Manager form of government. Legislative authority is vested in the Board of Commissioners consisting of the Mayor and four City Commissioners. As required by accounting principles generally accepted in the United States of America, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each blended component unit of the City has a June 30 year-end. The component units discussed below are included in the City's reporting entity because of the significance of their operational and/or financial relationship with the City.

Included in the Reporting Entity:

City of Newport Employee's Retirement Fund

Certain City employees participate in the non-uniformed Employee's Retirement Fund. The fund functions for the benefit of the retirees and is governed by a seven member board of trustees: the Mayor, the four City Commissioners, the City Manager, and the Chief Financial Officer. The City is obligated to fund all pension benefit costs based upon actuarial valuations. There are no active employees in the plan.

City of Newport Policemen's and Firefighters' Retirement Fund

All public employees who retired prior to August 1, 1988 participate in the Policemen's and Firefighters' Retirement Fund. The fund functions for the benefit of the retirees and is governed by a four member board of trustees: the Mayor, the City Manager, and two public safety retirees. The City is obligated to fund all pension benefit costs based upon actuarial valuations. There are no active employees in the plan.

City of Newport Municipal Properties Corporation

The City of Newport Municipal Properties Corporation was formed to act as an agent and to be instrumental in the financing of public improvements and projects of a capital nature for the City and for the particular purpose of acquiring real estate located within the City and constructing, acquiring and equipping thereon capital improvements, facilities, buildings, structures and related appurtenances. The Corporation finances these projects by the issuance of debt. These debt issues are secured by 1) first mortgage liens on the projects, 2) lease and option agreements between the Corporation and the City, 3) the construction agreements and 4) pledged receipts. The lease and option agreements require the City to pay rental from specified revenues, on a yearly basis with the option to renew each year. If the City renews the lease from year-to-year, and pays the rentals for each year as stipulated, and when the Corporation has fully paid and retired all the bonds, the Corporation agrees it will convey the properties to the City free and clear.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

The Board of Directors of the Corporation consists of the Mayor and the four City Commissioners. The City Manager serves as Treasurer. The City Clerk serves as Secretary.

Newport Foundation, Inc.

The component unit's column in the government-wide financial statements includes the financial data of the City's discretely presented component units. They are reported in a separate column to emphasize that they are legally separate from the City. Newport Foundation, Inc. is included in the City's reporting entity because the primary government is able to impose its will on the organization.

The Newport Foundation was formed in March 2009 as a public charity under section 501(c)(3) of the Internal Revenue Service Code, whose purpose is to facilitate the City's many festivals and community special events. This organization provides citizens and corporate sponsors an avenue to make tax-free charitable donations to the City's community festivals. The organization also facilitates neighborhood and community improvements through the purchase and resale of real property to various neighborhood foundations for revitalization. The Foundation's officers include the City's Mayor, City Manager, City Clerk, and the City's Chief Financial Officer.

Government-wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent, on fees and charges for services.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internal activity with the Health and Dental Fund is eliminated in the statement of activities.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability rather than as an expenditure.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes, license fees and interest are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Grants and similar items

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following funds of the financial reporting entity:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The Revolving Loan Fund is used for large-scale development projects. The Community Development Fund is used for other community development projects, including state and federally funded programs. The Capital Projects Fund is used to account for capital projects to be financed by grants and/or financing issues.

Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports on the following proprietary funds:

The Refuse Fund accounts for trash collection services provided to the residential and business owners within the City limits.

The Newport on the Levee Fund is responsible for operating the garage structure at the Newport on the Levee project and collecting other miscellaneous payments pursuant to a development agreement between the City and the project developer.

The City's only internal service fund is the self-insurance fund for the City's health and dental costs. Additionally, the City reports two fiduciary funds. The pension trust funds account for the activities of the Policemen's and Firefighters' Retirement Fund and Employee's Retirement Fund for the accumulation of resources for pension benefit payments to qualified retired employees.

The City's financial statements also include the Newport Foundation, a discretely presented component unit of the City.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Assets, Liabilities, and Net Position or Equity

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired by the City.

The City is authorized by state statute to invest in:

- Obligations of the United States and of its agencies and instrumentalities
- Certificates of deposits
- Bankers acceptances
- Commercial paper
- Bonds of other state or local governments
- Mutual funds

Investments

In accordance with Government Accounting Standards Board Statement No. 31, investments held at June 30, 2014 are recorded at fair value based on quoted market prices.

Property Tax Receivable

Property taxes are levied on September 30 on property values assessed as of January 1. The taxes are billed on approximately September 30 and are due and payable on October 31. On November 1, unpaid bills become delinquent and the City may assess penalties and interest. A lien may be placed on the property on November 1.

Short-Term Inter-fund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due to/from other funds" on the balance sheet. Short-term inter-fund loans are classified as "inter-fund receivables/payables".

Inventory

Inventory is valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventory are recorded as an expenditure when consumed rather than when purchased.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2014 are recorded as prepaid items utilizing the purchases method for all governmental funds.

Capital Assets

General capital assets are those assets not specifically related to activities in the proprietary fund. These assets are reported in the governmental activities column of the government-wide statement of

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

net position. Capital assets used by the proprietary fund are reported in the business-type activities column of the government-wide statement of net position. The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as an expenditure in the governmental funds and capitalized (recorded and accounted for) in the government-wide financial statements. Infrastructure such as streets, parks, and bridges are capitalized. Capital assets are defined by the City as assets with an initial, individual cost of at least \$2,500 and an estimated useful life of two or more years. The valuation basis for capital assets are either historical costs or, where historical costs are not available, estimated historical cost based on replacement cost. Prior to July 1, 2001 governmental funds infrastructure assets had not previously been capitalized.

These assets have been valued at estimated historical cost at July 1, 2003 due to the City electing to phase in the reporting of its infrastructure over three years.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements.

Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class is as follows:

	<u>Life, years</u>
Buildings	40
Building Improvements	10-20
Public Domain Infrastructure	25-40
Vehicles	5-15
Machinery and Equipment	3-5

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation pay. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the government funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are liquidated in the general fund.

Long-Term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as revenues and payment of principle and interest as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Net Position and Fund Balance

Net position is the difference between assets and liabilities. Net investment in capital assets are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

The City uses funds and account groups to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Nonspendable fund balances consist of amounts that are not in spendable form; the City considers prepaid expenses and inventories to be nonspendable.

Restricted fund balances are amounts that can only be used pursuant to constraints imposed by external sources; such as bond covenant requirements, state government restrictions or the funds restricted by the will of the City's voters. These include the balances of restricted cash in the City's General Fund.

Committed fund balances are amounts that can only be used for specific purposes as stipulated internally by the City Council. These items can only be changed or lifted by the Council taking the same formal action that imposed the restraint. These include residual balances from the Revolving Loan Fund which are committed to property purchases.

Assigned fund balances consists of funds that are set aside with the intent to be used for a specific purpose by the City's highest level of decision making authority or a body or official that has been given the authority to assign funds. These include residual balances from the Revolving Loan Fund and the Community Development Fund.

Unassigned fund balances consist of all residual funds not included in nonspendable, restricted, committed, or assigned fund balances.

Revenues, Expenditures and Expenses

Operating Revenues and Expenses

Operating revenues and expenses for the proprietary fund are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities. In the fund financial statements, governmental funds are classified as follows:

- Governmental funds – by character:
 - Current – further classified by function
 - Debt service
 - Capital outlay
- Proprietary funds – by operating and non-operating

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses related to the use of economic resources.

Inter-fund Transactions

Inter-fund services provided or used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it that are properly applicable to another fund, are recorded as expenditures or expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could differ from those estimates.

Management's Review of Subsequent Events

Management has evaluated events through February 17, 2015, the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2014 through February 17, 2015 to disclose.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. In accordance with City ordinance, prior to June 30, the City Manager submits to the Board of Commissioners, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- B. Prior to June 30, the budget is legally enacted through passage of an ordinance.
- C. The City Manager is required by Kentucky Revised Statutes to present a quarterly report to the Board of Commissioners explaining any variance from the approved budget.
- D. Appropriations continue in effect until a new budget is adopted.
- E. The Board of Commissioners may authorize supplemental appropriations during the year.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the Board of Commissioners; however, with proper approval by the City Manager, budgetary transfers between departments can be made. All appropriations lapse at fiscal year end.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE C – DEPOSITS AND INVESTMENTS

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's policy will attempt to match its investments with anticipated cash flow requirements and unless matched to a specific cash flow need, funds should not, in general, be invested in securities maturing more than 5 years from the date of purchase.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The City's custodial credit risk policy to require that all cash and investments maintained in any financial institution be collateralized, with the exception of certain certificates of deposit approved by the governing body and as outlined in the City's investment policy. It is the City's policy to permit deposits allowed by Kentucky Revised Statutes.

Cash and Cash Equivalents – The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2014, the City's deposits were entirely insured and/or collateralized with securities held by the financial institution in the City's name. At June 30, 2014, \$5,000,000 of collateral was pledged to the City by the custodial bank. In addition, the City had bank deposits of \$1,570,826 of cash equivalents invested in federal government obligations.

Investments – The City had custodial credit risk at June 30, 2014 of \$8,327,315. The related securities totaling this amount are uninsured, unregistered and held by various trust departments. The City has an investment policy for public funds. The City holds the funds above in trust, which is subject to policy mandated by Kentucky statute that allows for trust funds to be invested in securities which would be regarded by a prudent businessman as a safe investment.

As of June 30, 2014, the City had the following investments:

Investment Type	Fair Market Value	Weighted Average Maturity (Years)
Corporate bonds	\$ 326,238	8.83
Government securities	315,362	19.95
Cash balance in funds	274,191	-
Mutual funds	2,557,861	-
Closed end funds	429,820	-
Guaranteed investment contracts	4,423,843	12.32
Total investments	<u>\$ 8,327,315</u>	
Portfolio weighted average maturity		<u>7.65</u>

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

The City's investments are held in the following funds:

Investments held in:	Amount Invested
Newport on the Levee Fund	\$ 4,423,843
Fiduciary Funds	<u>3,903,472</u>
Total	<u>\$ 8,327,315</u>

Credit Risk – Investments – As of June 30, 2014 the City's investments in guaranteed investment contracts and corporate bonds received the following ratings by Standard & Poor's:

Investment	Rating
Guaranteed investment contracts – Newport on the Levee	
Unicredit Bank AG 01/01/2027	A-
Corporate bonds – Fiduciary Funds	
ALCOA	BBB-
American Express	A-
Apache Corp.	A-
Apple Inc.	AA+
AT&T Inc.	A-
Bank of America	A-
Best Buy Co.	BB
CenturyLink	BB
Comcast Corp.	A-
CVS Caremark Corp.	BBB+
Ecolab Inc.	BBB+
Enterprise Products Oper	BBB+
General Electric Capital Corp.	AA+
Goldman Sachs	A-
HSBC	A+
JP Morgan Chase Global	A
Kraft Foods	BBB-
MASCO Corporate Debt	BBB-
Nobile Energy	BBB
Petrobas International Finance Co.	BBB-
Verizon Communications	BBB+
Walmart	AA
Wells Fargo & Company	A+

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE D – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2014 is as follows:

	Balance June 30, 2013	Additions	Retirements/ Adjustments	Balance June 30, 2014
Governmental activities				
Items not being depreciated:				
Construction in progress	\$ 1,290,659	\$ 2,764,860	\$ (951,743)	\$ 3,103,776
Land	<u>6,690,209</u>	<u>-</u>	<u>(49,000)</u>	<u>6,641,209</u>
Subtotal	<u>7,980,868</u>	<u>2,764,860</u>	<u>(1,000,743)</u>	<u>9,744,985</u>
Capital assets being depreciated:				
Land improvements	36,190,949	1,352,040	-	37,542,989
Buildings	5,931,949	-	-	5,931,949
Machinery and equipment	2,468,088	3,895	-	2,471,983
Licensed vehicles	4,708,054	16,000	(297,314)	4,426,740
Non-licensed vehicles	<u>243,494</u>	<u>32,500</u>	<u>-</u>	<u>275,994</u>
Subtotal	<u>49,542,534</u>	<u>1,404,435</u>	<u>(297,314)</u>	<u>50,649,655</u>
Accumulated depreciation:				
Land improvements	(22,028,808)	(792,014)	-	(22,820,822)
Buildings	(2,825,861)	(151,203)	-	(2,977,064)
Machinery and equipment	(2,065,867)	(91,752)	-	(2,157,619)
Licensed vehicles	(3,831,597)	(121,002)	297,314	(3,655,285)
Non-licensed vehicles	<u>(148,555)</u>	<u>(25,082)</u>	<u>-</u>	<u>(173,637)</u>
Subtotal	<u>(30,900,688)</u>	<u>(1,181,053)</u>	<u>297,314</u>	<u>(31,784,427)</u>
Net depreciable capital assets	<u>18,641,846</u>	<u>223,382</u>	<u>-</u>	<u>18,865,228</u>
Total capital assets, net	<u>\$ 26,622,714</u>	<u>\$ 2,988,242</u>	<u>\$ (1,000,743)</u>	<u>\$ 28,610,213</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 183
Police	85,621
Fire/EMS	132,302
Development services	46,418
Community services	785,590
Municipal complex	<u>130,939</u>
Total governmental activities depreciation expense	<u>\$ 1,181,053</u>

CITY OF NEWPORT, KENTUCKY
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June 30, 2014

The following is a summary of changes in the capital assets in the proprietary funds:

	Balance June 30, 2013	Additions	Retirements/ Adjustments	Balance June 30, 2014
Proprietary activities:				
Land	\$ 9,196,274	\$ -	\$ -	\$ 9,196,274
Land improvements	26,281	-	-	26,281
Buildings	<u>39,991,054</u>	<u>84,883</u>	-	<u>40,075,937</u>
Subtotal	<u>49,213,605</u>	<u>84,883</u>	-	<u>49,298,492</u>
Accumulated depreciation				
Land improvements	(20,295)	(1,752)	-	(22,047)
Buildings	<u>(19,139,894)</u>	<u>(1,637,384)</u>	-	<u>(20,777,278)</u>
Subtotal	<u>(19,160,189)</u>	<u>(1,639,136)</u>	-	<u>(20,799,325)</u>
Net capital assets	<u>\$ 30,053,420</u>	<u>\$ (1,554,253)</u>	<u>\$ -</u>	<u>\$ 28,499,167</u>

All proprietary fund depreciation was charged to the Newport on the Levee Fund.

NOTE E – LONG-TERM DEBT

Governmental Activities

Leases Payable

Backhoe Lease Payable

The City has a lease agreement with John Deere Credit, Inc. for a backhoe. The lease is dated November 1, 2009 for five years with an original balance of \$76,779 and an annual interest rate of 5.25%. The balance at June 30, 2014 is \$5,768. This lease agreement qualifies as a capital lease for accounting purposes, and, therefore, has been recorded at the present value of the future minimum lease payments. The net book value of the backhoe is \$40,730.

The following is a schedule of the future minimum lease payments under this capital lease, and the present value of the net minimum lease payments at June 30, 2014:

Year Ended June 30,	Backhoe Lease
2015	\$ 5,831
Less amount representing interest	<u>(63)</u>
Present value of future minimum lease payments	<u>\$ 5,768</u>

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Notes Payable

All notes payable are payable from general fund revenues and are secured by City assets.

Note Payable – Kentucky Infrastructure Authority

The City entered into a loan agreement with the Kentucky Infrastructure Authority on September 16, 1994 to fund the development of the Channel Crossing Project in the amount of \$2,331,899 with an annual interest rate of 5.25%. The repayment of the loan is on a thirty-year amortization schedule with a balloon payment due in year twenty. This note was refinanced with the Kentucky Infrastructure authority on December 1, 2006, with a new repayment amortization schedule of twenty years and a new interest rate of 1.40%. The balance at June 30, 2014 is \$1,557,091. The following is a schedule of future debt service requirements to maturity as of June 30, 2014:

Year Ended June 30,	Note Payable KIA		
	Principal	Interest/ Fees	Total Debt Service
2015	\$ 131,888	\$ 24,388	\$ 156,276
2016	133,741	22,270	156,011
2017	135,619	20,123	155,742
2018	137,525	17,945	155,470
2019	139,456	15,737	155,193
2020	141,416	13,498	154,914
2021-2025	<u>737,446</u>	<u>32,787</u>	<u>770,233</u>
Total	<u>\$ 1,557,091</u>	<u>\$ 146,748</u>	<u>\$ 1,703,839</u>

Bank of Kentucky Note Payable

The City entered into a lease agreement for \$8,042,767 with Bank of Kentucky on December 27, 2013 to currently refund the outstanding General Obligation Public Project Bonds, Series 2002. The obligation constitutes a general obligation of the City and is payable semi-annually on May and November with final maturity on November 1, 2022. The obligation bears interest at a rate of 2.90%. The balance of the note at June 30, 2014 is \$8,042,767. The following is a schedule of future debt service requirements to maturity as of June 30, 2014:

Year Ended June 30,	Bank of Kentucky Note Payable		
	Principal	Interest	Total Debt Service
2015	\$ 700,000	\$ 223,090	\$ 923,090
2016	833,675	200,852	1,034,527
2017	852,806	176,397	1,029,204
2018	880,441	151,266	1,031,707
2019	902,087	125,419	1,027,506
2020-2024	<u>3,873,758</u>	<u>228,539</u>	<u>4,102,297</u>
Total	<u>\$ 8,042,767</u>	<u>\$ 1,105,563</u>	<u>\$ 9,148,331</u>

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
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Bonds Payable

The following bonds payable are payable from general fund revenues and are secured by the City assets which were financed by the bonds.

2002 General Obligation Public Project Bonds

The City issued bonds on November 1, 2002 in the amount of \$13,655,000 for the purpose of various public projects, including street improvements, public park improvements, and other capital investments. The interest rate ranged from 1.45% to 4.375% and the bonds mature over the period November 1, 2003 to November 1, 2022; however, the City refunded the remaining balance on the 2002 bonds in December 2013 through issuance of the Bank of Kentucky Note Payable at a fixed rate of 2.9%.

2003 General Obligation Public Project Refunding Bonds

The City issued bonds on June 17, 2003 for \$4,635,000 for the principal purpose of refinancing the leases on the City Hall and the Fire Facilities. The interest rate ranges from 1% to 3.3%. The bonds mature over the period August 1, 2004 to August 1, 2016. The balance due at June 30, 2014 is \$1,200,000. The following is a schedule of future debt service requirements to maturity as of June 30, 2014:

2003 General Obligation Bonds Payable			
June 30,	Principal	Interest	Total Debt Service
2015	\$ 390,000	\$ 31,880	\$ 421,880
2016	400,000	19,780	419,780
2017	410,000	6,765	416,765
Total	<u>\$ 1,200,000</u>	<u>\$ 58,425</u>	<u>\$ 1,258,425</u>

2007A General Obligation Public Project Bonds

The City issued bonds on June 14, 2007 in the amount of \$4,830,000 to finance the construction of Pavilion Parkway, water mains and lines, sewer mains and lines, water detention facilities and related improvements. The interest rate ranges from 3.75% to 4.0% and the bonds mature over the period May 1, 2008 to May 1, 2027. The principal balance at June 30, 2014 is \$3,550,000. The following is a schedule of future debt service requirements to maturity as of June 30, 2014:

2007A General Obligation Bonds Payable			
June 30,	Principal	Interest	Total Debt Service
2015	\$ 215,000	\$ 140,138	\$ 355,138
2016	225,000	131,967	356,967
2017	230,000	123,305	353,305
2018	240,000	114,450	354,450
2019	250,000	105,090	355,090
2020-2024	1,405,000	369,740	1,774,740
2025-2027	<u>985,000</u>	<u>79,800</u>	<u>1,064,800</u>
Total	<u>\$ 3,550,000</u>	<u>\$ 1,064,490</u>	<u>\$ 4,614,490</u>

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

2007B Taxable General Obligation Funding Bonds

The City issued bonds on June 14, 2007 in the amount of \$7,705,000 to fund the unfunded liabilities to the City's Employee's Retirement Fund and Police and Firefighters' Retirement Fund. The interest rate ranges from 5.10% to 5.75% and the bonds mature over the period May 1, 2008 to May 1, 2032. The principal balance at June 30, 2014 is \$6,475,000. The following is a schedule of future debt service requirements to maturity as of June 30, 2014:

June 30,	2007B General Obligation Bonds Payable		
	Principal	Interest	Total Debt Service
2015	\$ 220,000	\$ 367,613	\$ 587,613
2016	225,000	355,952	580,952
2017	235,000	343,915	578,915
2018	250,000	331,225	581,225
2019	265,000	317,475	582,475
2020-2024	1,600,000	1,344,512	2,944,512
2025-2029	2,100,000	829,148	2,929,148
2030-2032	1,580,000	184,862	1,764,862
Total	<u>\$ 6,475,000</u>	<u>\$ 4,074,702</u>	<u>\$ 10,549,702</u>

Proprietary Activities

2000A&B Revenue Bonds

On April 1, 2000, the City issued First Mortgage Revenue Bonds in the amount of \$55,780,000, consisting of \$11,550,000 in taxable 2000 Series B bonds at an 11% coupon rate maturing in January 2009 and \$44,230,000 in tax-exempt 2000 Series A bonds at an 8.75% coupon rate maturing in January 2027, to finance and acquire real property, a public parking garage facility, a public plaza area, land, and a surface parking lot at Newport on the Levee. The issue calls for semi-annual interest payments on January 1 and July 1 and annual principal payments on January 1. Revenues from the Newport on the Levee fund are pledged to the retirement of this debt, and the Newport on the Levee property is collateral for this debt. The 2000 Series B bonds were paid in full in fiscal year 2009. The balance remaining at June 30, 2014 of \$26,660,000 consists of only 2000 Series A tax-exempt bonds. The following is a schedule of future debt service requirements to maturity as of June 30, 2014:

June 30,	2000A Revenue Bonds Payable		
	Principal	Interest	Total Debt Service
2015	\$ 1,465,000	\$ 2,257,800	\$ 3,722,800
2016	1,590,000	2,176,331	3,766,331
2017	1,720,000	2,043,169	3,763,169
2018	1,865,000	1,899,119	3,764,119
2019	2,020,000	1,742,925	3,762,925
2020-2024	10,135,000	6,266,625	16,401,625
2025-2027	7,865,000	1,563,730	9,428,730
Total	<u>\$ 26,660,000</u>	<u>\$ 17,949,699</u>	<u>\$ 44,609,699</u>

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Changes in Long-Term Liabilities

During the year ended June 30, 2014 the following changes occurred in long-term liabilities in the governmental funds:

	June 30, 2013	Additions	Retirements	June 30, 2014	Due within One Year
Backhoe capital lease	\$ 22,479	\$ -	\$ (16,711)	\$ 5,768	\$ 5,768
Compensated absences	860,064	228,986	-	1,089,050	-
Gen. obligation bonds - 2002	8,630,000	-	(8,630,000)	-	-
Gen. obligation bonds - 2003	1,580,000	-	(380,000)	1,200,000	390,000
Gen. obligation bonds - 2007A	3,755,000	-	(205,000)	3,550,000	215,000
Gen. obligation bonds - 2007B	6,680,000	-	(205,000)	6,475,000	220,000
Notes payable - KIA	1,687,152	-	(130,060)	1,557,092	131,866
Notes Payable - Bank of Kentucky	-	8,042,767	-	8,042,767	700,000
Total	<u>\$ 23,241,695</u>	<u>\$ 8,271,753</u>	<u>\$ (9,566,771)</u>	<u>\$ 21,919,677</u>	<u>\$ 1,662,656</u>

Long-term liability activity for business-type activities for the year ended June 30, 2014 was as follows:

	June 30, 2013	Additions	Retirements	June 30, 2014	Due within One Year
Newport on the Levee	<u>\$ 28,015,000</u>	<u>\$ -</u>	<u>\$ (1,355,000)</u>	<u>\$ 26,660,000</u>	<u>\$ 1,465,000</u>

NOTE F – CLAIMS AND JUDGMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims including amounts already collected may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE G – EMPLOYEE RETIREMENT SYSTEM

Plan Description

The City maintains two single-employer, defined benefit pension plans, the Employees' Retirement Fund and the Policemen and Firefighter's Retirement Fund.

The plan's are presented as Fiduciary Funds in the City's financial statements. The Employees' Retirement Fund covers substantially all non-public safety employees hired prior to April 1, 1977. The Policemen and Firefighter's Pension Plan covers all retired policemen and firefighters who were receiving benefits prior to August 1, 1988. Each plan provides retirement, disability, and death benefits to plan members and their beneficiaries.

Neither plan has active members. In addition, future employees are not eligible to participate in the plans. The Employee's Retirement fund has 7 retired, 3 disabled and 15 beneficiary members

CITY OF NEWPORT, KENTUCKY
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receiving benefits. The Policemen and Firefighter's Retirement fund has 9 retired, 6 disabled, and 17 beneficiary members receiving benefits.

Benefits Provided

Benefits for the Employees' Retirement Fund are provided and may be amended by City ordinance. Benefits for the Policemen and Firefighter's Retirement Fund are provided by state statute. Members are vested and retirement is available upon completion of 20 years of service. The monthly benefit at retirement is 2.5% of average salary for the first 20 years of service plus 1% per year after 20 years with a maximum benefit of 65% of average salary. The Policemen and Firefighter's Retirement Fund has a minimum benefit of \$434. Cost-of-living adjustments, for the Policemen and Firefighter's Retirement Fund are provided at the discretion of the Board of Trustees.

Contributions

The City must provide annual contributions sufficient to satisfy the actuarially determined contribution requirements as mandated by state statutes. No contributions was made for the year ending June 30, 2014, for either funds.

Measurement Focus and Basis of Accounting

The Plans' operations are accounted for on an economic resources measurement focus and the accrual basis of accounting. Employer contributions are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with terms of the Plan.

The Employees' Retirement Fund and the Policemen and Firefighter's Retirement Fund implemented Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans in 2014. The fiduciary fund statements are presented in accordance with Statement No. 67. The Primary Government (PG), as the Plan's single-employer, currently follows GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers. The PG will implement GASB Statement No. 68, Accounting and Financial Reporting for Pensions in fiscal year 2015. Disclosures are presented for both the Plan, in accordance with GASB No. 67, and the PG, in accordance with GASB No. 27.

Investments

Investments are reported at fair value.

The Plans' policy for allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

CITY OF NEWPORT, KENTUCKY
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June 30, 2014

The following was the Board's adopted asset allocation policy as of June 30, 2014:

Employees' Retirement Fund:

Asset Class	Target Allocation
Fixed income	30 %
Equity funds	50 %
Alternative funds	<u>20</u> %
	100 %

Policemen and Firefighter's Pension Fund

Asset Class	Target Allocation
Fixed income	30 %
Equity funds	50 %
Alternative funds	<u>20</u> %
	100 %

Investments that represent 5% or more of the net position of \$1,153,202 of the Employees' Retirement Fund at June 30, 2014 are as follows:

Investment	Fair Value
MS Liquid Asset Fund	98,236
Western Asset Smash Series M	84,718

Investments that represent 5% or more of the net position of \$2,750,270 of the Policemen and Firefighter's Retirement Fund at June 30, 2014 are as follows:

Investment	Fair Value
MS Liquid Asset Fund	148,515
Western Asset Smash Series M	198,910

Net Pension Liability

The components of the net pension liability at June 30, 2014, were as follows:

Employees' Retirement Fund:

Total pension liability	\$ 2,002,323
Less: Plan fiduciary net position	<u>1,153,201</u>
Net position liability	<u>\$ 849,122</u>
Plan fiduciary net position as a percentage of total pension liability	57.59%

CITY OF NEWPORT, KENTUCKY
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June 30, 2014

Policemen and Firefighter's Retirement Fund:

Total pension liability	\$ 2,774,923
Less: Plan fiduciary net position	<u>2,750,270</u>
Net position liability	<u>\$ 24,653</u>
Plan fiduciary net position as a percentage of total pension liability	99.11%

Actuarial Assumptions – The total pension liability for both Plans was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions:

Employees' Retirement Fund:

Cost of Living	- %
Salary Adjustments	N/A
Investment Rate of Return	7.5 %

Policemen and Firefighter's Pension Fund

Cost of Living	- %
Salary Adjustments	N/A
Investment Rate of Return	7.5 %

Mortality rates for health individuals were based on RP 2000 Combined Static Mortality Table for males and females, as appropriate, with adjustments for mortality improvements based on Scale AA. Mortality rates for disable individuals were based on RP 2000 Disabled Retiree Mortality Table for males and females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study from 2006 – 2014.

The long-term expected rate of return on Plan investments was determined using 10 year return expectations based on historical data in different yield environments. Best estimates of the geometric rates of return for each major asset class, included in the Plan's target asset allocation at June 30, 2014, is as follows:

Employees' Retirement Fund:

Asset Class	Long-Term Expected Real Rate of Return
Fixed income	3.20 %
Equity funds	6.10 %
Alternative funds	7.32 %

CITY OF NEWPORT, KENTUCKY
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June 30, 2014

Policemen and Firefighter's Retirement Fund

Asset Class	Long-Term Expected Real Rate of Return
Fixed income	3.20 %
Equity funds	6.10 %
Alternative funds	7.32 %

Discount Rate – The discount rate used to measure the total pension liability was 7.45% for the Policemen and Firefighter's Retirement Fund and 5.0% for the Employee's Retirement Fund. The discount rate was determined by blending the expected rate of return of 7.50% until the fund is depleted and then a 3.74% twenty year tax-exempt municipal bond rate, which is the rate that current municipal bonds are available to similar cities. The Employee's Retirement Fund is expected to be depleted by year eight following the measurement date and the Policemen and Firefighter's Retirement Fund is expected to be depleted by year 33 following the measurement date.

Sensitive of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability calculated using the discount rate noted above, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower and higher than the current rate.

Employees' Retirement Fund:

	Discount Rate	Net Pension Liability (Asset)
1% decrease	4.00%	\$ 992,372
Current discount rate	5.00%	\$ 849,122
1% increase	6.00%	\$ 723,555

Policemen and Firefighter's Retirement Fund:

	Discount Rate	Net Pension Liability (Asset)
1% decrease	6.45%	\$ 192,767
Current discount rate	7.45%	\$ 24,653
1% increase	8.45%	\$ (125,274)

The following represents additional information presented in compliance with GASB Statement No. 27. Calculations and presentation requirements under GASB Statement No. 27 differs significantly from the new standards, which will be in effect in fiscal year 2015.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Employer Contributions:

Employees' Retirement Fund				
Year Ended	Annual Pension Cost	Contributions Made	Percentage Contributed	
June 30,				
2005	\$ 244,433	\$ -	-	
2006	298,510	-	-	
2007	307,465	3,026,000	984%	
2008	257,300	-	-	
2009	271,767	-	-	
2010	278,844	-	-	
2011	309,652	-	-	
2012	265,098	-	-	
2013	259,398	-	-	
2014	178,406	-	-	

Policemen's and Firefighters' Retirement				Net Pension Obligation (Asset) (Both Funds)
Year Ended	Annual Pension Cost	Contributions Made	Percentage Contributed	
June 30,				
2005	\$ 259,825	\$ -	-	\$ 1,380,738
2006	357,326	-	-	2,036,574
2007	368,046	4,539,000	1233%	(4,852,915)
2008	377,592	-	-	(4,218,023)
2009	261,072	-	-	(3,685,184)
2010	335,570	-	-	(3,070,770)
2011	330,512	-	-	(2,430,606)
2012	311,025	-	-	(1,854,483)
2013	302,191	-	-	(1,007,137)
2014	107,351	-	-	(1,292,894)

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Funding Progress:

Actuarial Valuation Date July 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
Employees' Fund						
2014	\$ 1,153,201	\$ 1,715,278	\$ 562,077	67.2%	N/A	N/A
2010	1,827,178	2,466,571	639,393	74.1%	N/A	N/A
2006	329,338	3,067,068	2,737,730	10.7%	N/A	N/A
Policemen & Firefighter's Fund						
2014	\$ 2,750,270	\$ 2,767,019	\$ 16,749	99.3%	N/A	N/A
2010	3,579,151	3,597,686	18,535	99.5%	N/A	N/A
2006	1,236,047	4,530,718	3,294,671	27.3%	N/A	N/A

The actuarial accrued liability presented in accordance with GASB 27 differs from the net pension liability as presented by GASB 67 due to a difference in the discount rate. The AAL is calculated using a discount rate of 7.5% for both plans.

County Employees Retirement System (CERS)

City employees who work at least 100 hours per month participate in the County Employees Retirement System (CERS). Under the provisions of the Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements, which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the state legislature.

Non-hazardous Contributions – For the year ended June 30, 2014, plan members were required to contribute 5% of their annual creditable compensation. Employees hired after September 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate.

Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2014, participating employers contributed 18.89% of each employee's creditable compensation, which was the actuarially determined rate set by the Board. Administrative costs of the Kentucky Retirement System are financed through employer contributions and investment earnings.

Hazardous Contributions – For the year ended June 30, 2014, plan members were required to contribute 8% of their annual creditable compensation. Employees hired after September 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate.

Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2014, participating employers contributed 35.70% of each employee's creditable compensation, which was the actuarially determined rate set by the Board. Administrative costs of the KRS are financed through employer contributions and investment earnings.

The required employer and employee contribution and the actual percentage contributed for the City for the current and previous two years are as follows:

Year	Required Contribution	Percentage Contributed
2014	\$ 2,506,876	100%
2013	\$ 2,078,649	100%
2012	\$ 1,858,419	100%

NOTE H – DEFERRED COMPENSATION PLAN

Employees of the City may participate in the deferred compensation plan adopted under the provision of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments). Employees may also participate in a Section 401(k) adopted under the provisions of the Internal Revenue Code. The deferred compensation plan is available to all employees of the City. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable financial emergency.

The deferred compensation plans are administered by the Kentucky Public Employees' Kentucky Deferred Compensation Authority.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE I – INTER-FUND TRANSACTIONS

A summary of the inter-fund account balances is as follows:

<u>Receivable Funds</u>	<u>Payable Funds</u>	<u>Amount</u>
General Fund	Capital Projects	\$ 318,250
	Refuse	<u>66,355</u>
		<u>\$ 384,605</u>
Newport Foundation	General Fund	<u>\$ 20,630</u>

Many of the outstanding balances between funds are short-term loans for payments of payables prior to the transfer of funds to cover such payables.

Inter-fund transfers at June 30, 2014 are as follows:

<u>Transfer Out:</u>	<u>Transfer In:</u>					<u>Total</u>
	<u>General Fund</u>	<u>Community Development</u>	<u>Newport Foundation</u>	<u>Capital Projects</u>	<u>Employee Benefits</u>	
General Fund	\$ -	\$ 74,406	\$ 60,000	\$ 680,016	\$ 100,000	\$ 914,422
Revolving Loan Fund	36,508	-	-	213,465	-	249,973
Refuse Fund	<u>43,212</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,212</u>
	<u>\$ 79,720</u>	<u>\$ 74,406</u>	<u>\$ 60,000</u>	<u>\$ 893,481</u>	<u>\$ 100,000</u>	<u>\$1,207,607</u>

Transfers are used to (1) move debt service funds to the general fund where all debt service is paid, or (2) move funds from the fund that collected them to the fund that will be making the budgeted disbursement.

NOTE J – CONTINGENT LIABILITIES

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

NOTE K – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs through the efforts and cooperation of its risk manager and department heads.

All general liability risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

The City has established a Health and Dental Self-Insurance Fund. Employees participate in the program and certain other medical insurance programs offered by the City. Under this program, the first

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

\$30,000 of a participant's medical claim are payable by the health and dental self-insurance fund. The City purchases insurance for claims in excess of coverage provided by the fund. The general fund participates in the program and makes payments to the health and dental fund based on estimates of the amount needed to pay current year claims. A liability for incurred but not reported claims as of June 30, 2014 has not been estimated based on the nature of the claims process. This is in accordance with the requirements of GASB Statement No. 10 which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements unless such an estimate cannot be made.

The General Fund contains no provision for estimated legal claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE L – PRIOR PERIOD RESTATEMENT

Newport on the Levee's net position was restated in fiscal year 2014 to capitalize additions that were incorrectly expensed in previous years and to expense the related depreciation on those capital additions.

	Newport on the Levee
Net position, at beginning of year	\$ 9,635,366
Capital additions	629,039
Prior period depreciation expense on capital additions	<u>(114,922)</u>
Net position, at beginning of year, as restated	<u>\$ 10,149,483</u>

NOTE M – SUBSEQUENT EVENTS

Tax Anticipation Notes

On July 2, 2014, the City issued \$900,000 of tax anticipation notes. The notes bear interest at a rate of 2.10% and mature on June 30, 2015.

General Obligation Bond Anticipation Note

On December 19, 2014, the City issued a \$1,061,000 of General Obligation Bond Anticipation Note. The note bears interest at a rate of .78% and matures on December 1, 2015. Proceeds are to be used to acquire, construct, install and equip a public works building.

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of state and local government employers and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67.

CITY OF NEWPORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

The City's Fiduciary Funds have implemented Statement No. 67 during fiscal year 2014. Statement No. 68 will take effect for pension plan employers in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, or later). The City is currently evaluating the effects of this statement on its financial statements. The City's potential unfunded liability, based on June 30, 2014 plan financial statements, is estimated to be \$13,377,000 for the County Employers Retirement Plan, \$849,122 for the Employee's Retirement Fund and \$24,653 for the Policemen and Firefighter's Retirement Fund. The actual liability for June 30, 2015, could be considerably different due to changes in system assumptions and liabilities.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NEWPORT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
Budgetary fund balance, July 1	\$ 264,369	\$ 277,859	\$ 277,859	\$ -
Resources (inflows):				
Taxes:				
Property	1,986,000	3,745,395	3,734,650	(10,745)
Tangible	220,200	216,670	223,581	6,911
Bank deposit	50,000	61,720	61,721	1
Licenses and permits:				
Payroll license fees	6,425,000	6,683,240	6,947,990	264,750
Insurance license fees	2,600,000	2,950,000	2,981,708	31,708
Other	522,350	588,905	631,232	42,327
Intergovernmental	1,090,700	1,221,545	1,220,790	(755)
Fines and forfeitures	145,100	107,510	102,172	(5,338)
Charges for services	973,000	948,125	983,802	35,677
Uses of property	1,120,440	1,103,760	1,218,969	115,209
Interest	1,000	810	1,402	592
Miscellaneous	2,500	3,105	5,440	2,335
Refunds and reimbursements	10,000	7,875	7,945	70
Transfers in	78,500	80,795	79,720	(1,075)
Amounts available for appropriation	<u>15,489,159</u>	<u>17,997,314</u>	<u>18,478,981</u>	<u>481,667</u>
Charges to appropriations (outflows):				
General Government:				
Office of City Manager:				
Personnel	642,290	646,355	638,250	8,105
Contractual	330,970	378,930	378,730	200
Materials and supplies	7,250	3,260	4,106	(846)
Other-unclassified	29,450	28,635	28,787	(152)
Total Office of City Manager	<u>1,009,960</u>	<u>1,057,180</u>	<u>1,049,873</u>	<u>7,307</u>
Finance and Administration:				
Personnel	414,490	396,245	387,935	8,310
Contractual	145,320	135,820	143,657	(7,837)
Materials and supplies	5,500	8,900	8,128	772
Other-unclassified	39,360	40,980	39,211	1,769
Total Finance and Administration	<u>604,670</u>	<u>581,945</u>	<u>578,931</u>	<u>3,014</u>
Total General Government	<u>\$ 1,614,630</u>	<u>\$ 1,639,125</u>	<u>\$ 1,628,804</u>	<u>\$ 10,321</u>

CITY OF NEWPORT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
				(Continued)
Police:				
Chief's Office:				
Personnel	\$ 430,700	\$ 447,190	\$ 452,051	\$ (4,861)
Contractual	160,250	106,075	110,440	(4,365)
Materials and supplies	15,150	18,710	19,928	(1,218)
Other-unclassified	4,010	3,790	4,624	(834)
Total Chief's Office	<u>610,110</u>	<u>575,765</u>	<u>587,043</u>	<u>(11,278)</u>
Police Administration:				
Personnel	143,360	151,795	145,550	6,245
Contractual	1,950	3,800	3,255	545
Materials and supplies	-	2,115	3,246	(1,131)
Other-unclassified	-	2,165	2,005	160
Total Police Administration	<u>145,310</u>	<u>159,875</u>	<u>154,056</u>	<u>5,819</u>
Patrol:				
Personnel	3,005,420	2,971,685	2,975,048	(3,363)
Contractual	84,760	111,620	101,323	10,297
Materials and supplies	163,400	173,295	167,217	6,078
Other-unclassified	1,500	31,070	37,317	(6,247)
Total Patrol	<u>3,255,080</u>	<u>3,287,670</u>	<u>3,280,905</u>	<u>6,765</u>
Investigation:				
Personnel	393,430	397,980	400,360	(2,380)
Contractual	9,470	8,795	11,933	(3,138)
Materials and supplies	9,100	13,860	14,960	(1,100)
Other-unclassified	3,250	2,440	2,121	319
Total Investigation	<u>415,250</u>	<u>423,075</u>	<u>429,374</u>	<u>(6,299)</u>
Traffic:				
Personnel	129,880	127,830	122,492	5,338
Contractual	5,730	7,865	6,748	1,117
Materials and supplies	14,200	14,225	14,313	(88)
Other-unclassified	-	6,840	5,702	1,138
Total Traffic	<u>149,810</u>	<u>156,760</u>	<u>149,255</u>	<u>7,505</u>
Total Police	<u>\$ 4,575,560</u>	<u>\$ 4,603,145</u>	<u>\$ 4,600,633</u>	<u>\$ 2,512</u>

CITY OF NEWPORT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
				(Continued)
Fire/EMS				
Administration:				
Personnel	\$ 228,940	\$ 192,670	\$ 171,142	\$ 21,528
Contractual	38,450	43,890	45,496	(1,606)
Materials and supplies	14,350	21,330	23,689	(2,359)
Other-unclassified	10,100	12,145	11,349	796
Total Administration	<u>291,840</u>	<u>270,035</u>	<u>251,676</u>	<u>18,359</u>
Suppression:				
Personnel	1,157,430	1,132,755	1,109,554	23,201
Contractual	43,950	36,530	33,686	2,844
Materials and supplies	24,500	15,035	15,800	(765)
Total Suppression	<u>1,225,880</u>	<u>1,184,320</u>	<u>1,159,040</u>	<u>25,280</u>
Education/Prevention:				
Personnel	359,970	345,150	335,465	9,685
Contractual	1,830	3,405	3,097	308
Materials and supplies	3,150	2,280	2,404	(124)
Other-unclassified	1,500	855	733	122
Total Education/Prevention	<u>366,450</u>	<u>351,690</u>	<u>341,699</u>	<u>9,991</u>
Emergency services:				
Personnel	1,173,290	1,266,430	1,253,028	13,402
Contractual	70,020	77,760	73,093	4,667
Materials and supplies	50,650	48,365	49,370	(1,005)
Other-unclassified	500	-	-	-
Total Emergency services	<u>1,294,460</u>	<u>1,392,555</u>	<u>1,375,491</u>	<u>17,064</u>
South Newport:				
Personnel	858,310	872,640	857,709	14,931
Contractual	21,290	20,155	19,964	191
Materials and supplies	9,100	9,250	6,111	3,139
Other-unclassified	980	705	1,004	(299)
Total South Newport:	<u>889,680</u>	<u>902,750</u>	<u>884,788</u>	<u>17,962</u>
Total Fire/EMS	<u>\$ 4,068,310</u>	<u>\$ 4,101,350</u>	<u>\$ 4,012,694</u>	<u>\$ 88,656</u>

CITY OF NEWPORT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
				(Continued)
Development Services:				
Administration:				
Personnel	\$ 154,250	\$ 155,005	\$ 153,342	\$ 1,663
Contractual	37,630	40,000	40,061	(61)
Materials and supplies	1,000	1,460	1,469	(9)
Other-unclassified	18,720	11,295	8,362	2,933
Total Administration	<u>211,600</u>	<u>207,760</u>	<u>203,234</u>	<u>4,526</u>
Code Enforcement:				
Personnel	244,090	212,080	214,349	(2,269)
Contractual	75,310	89,805	101,188	(11,383)
Materials and supplies	12,670	12,735	15,053	(2,318)
Other-unclassified	9,000	4,320	3,059	1,261
Total Code Enforcement	<u>341,070</u>	<u>318,940</u>	<u>333,649</u>	<u>(14,709)</u>
Total Development Services	<u>552,670</u>	<u>526,700</u>	<u>536,883</u>	<u>(10,183)</u>
Community Services:				
Administration:				
Personnel	179,060	182,450	180,403	2,047
Contractual	5,390	3,530	4,080	(550)
Materials and supplies	3,500	3,545	3,292	253
Other-unclassified	380	1,920	1,599	321
Total Administration	<u>188,330</u>	<u>191,445</u>	<u>189,374</u>	<u>2,071</u>
Pool:				
Personnel	59,670	49,220	50,370	(1,150)
Contractual	17,310	33,560	34,571	(1,011)
Materials and supplies	23,600	18,630	23,380	(4,750)
Other-unclassified	13,980	13,300	13,446	(146)
Total Pool	<u>114,560</u>	<u>114,710</u>	<u>121,767</u>	<u>(7,057)</u>
Public Works:				
Personnel	596,630	578,055	585,603	(7,548)
Contractual	393,960	314,040	388,498	(74,458)
Materials and supplies	193,600	240,400	256,940	(16,540)
Other-unclassified	9,100	20,215	20,391	(176)
Total Public Works	<u>\$ 1,193,290</u>	<u>\$ 1,152,710</u>	<u>\$ 1,251,432</u>	<u>\$ (98,722)</u>

CITY OF NEWPORT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
				(Continued)
Parks and Recreation:				
Personnel	\$ 3,040	\$ 70	\$ (1,946)	\$ 2,016
Contractual	91,730	46,760	67,851	(21,091)
Materials and supplies	10,600	9,485	3,572	5,913
Other-unclassified	19,900	9,305	14,164	(4,859)
Total Parks and Recreation	<u>125,270</u>	<u>65,620</u>	<u>83,641</u>	<u>(18,021)</u>
Total Community Services	<u>1,621,450</u>	<u>1,524,485</u>	<u>1,646,214</u>	<u>(121,729)</u>
Municipal Complex:				
Contractual	213,920	191,140	156,282	34,858
Materials and supplies	12,500	13,500	10,257	3,243
Other-unclassified	30,600	40,600	10,343	30,257
Total Municipal Complex	<u>257,020</u>	<u>245,240</u>	<u>176,882</u>	<u>68,358</u>
Capital Outlay:				
General government	-	30,000	30,000	-
Community services	-	27,000	18,410	8,590
Total Capital Outlay	<u>-</u>	<u>57,000</u>	<u>48,410</u>	<u>8,590</u>
Debt Service:				
Principal	1,261,770	1,668,770	1,661,771	6,999
Interest	848,020	918,870	918,237	633
Total Debt Service	<u>2,109,790</u>	<u>2,587,640</u>	<u>2,580,008</u>	<u>7,632</u>
Transfers out	<u>431,500</u>	<u>789,000</u>	<u>914,422</u>	<u>(125,422)</u>
Total charges to appropriations	<u>15,230,930</u>	<u>16,073,685</u>	<u>16,144,950</u>	<u>(71,265)</u>
Other financing sources (uses):				
Other financing source - note proceeds	-	-	8,042,767	8,042,767
Other financing use - cost of bond issuance	-	-	(55,612)	(55,612)
Other financing use - bond refunding	-	-	(7,987,155)	(7,987,155)
Budgetary fund balance, June 30	<u>\$ 258,229</u>	<u>\$ 1,923,629</u>	<u>\$ 2,334,031</u>	<u>\$ 410,402</u>

CITY OF NEWPORT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
REVOLVING LOAN FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Budgetary fund balances, July 1	\$ (2,509)	\$ (29,399)	\$ (29,399)	\$ -
Resources (inflows):				
Reimbursements-judgements	250,000	250,405	250,405	-
Uses of property	36,000	36,000	36,000	-
Interest	50	470	508	38
Miscellaneous	-	-	-	-
Amounts available for appropriation	<u>283,541</u>	<u>257,476</u>	<u>257,514</u>	<u>38</u>
Charges to appropriations (outflows):				
Cote Brilliante project	-	-	2,541	(2,541)
Stormwater project	5,000	7,540	5,000	2,540
Transfer to other funds	<u>278,540</u>	<u>249,935</u>	<u>249,973</u>	<u>(38)</u>
Total charges to appropriations	<u>283,540</u>	<u>257,475</u>	<u>257,514</u>	<u>(39)</u>
Budgetary fund balances, June 30	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ (1)</u>

CITY OF NEWPORT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
COMMUNITY DEVELOPMENT FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Budgetary fund balances, July 1	\$ 395,189	\$ 392,591	\$ 392,591	\$ -
Resources (inflows):				
Columbia Street	-	-	19,970	19,970
Hamlet Row	977,500	975,500	975,500	-
Bank interest	350	250	314	64
Brownfield Grant	219,150	-	-	-
Watertower	45,010	45,010	45,008	(2)
St. Vincent	8,870	8,870	8,867	(3)
Transfers in	46,500	46,500	74,406	27,906
Amounts available for appropriation	<u>1,692,569</u>	<u>1,468,721</u>	<u>1,516,656</u>	<u>47,935</u>
Charges to appropriations (outflows):				
Studies, surveys, signage, projects	229,150	-	-	-
Columbia Street	-	19,970	19,970	-
Hamlet Row	977,500	975,500	975,500	-
Southbank	42,620	85,240	85,240	-
Brownfield Grant	-	-	-	-
Façade Improvement	-	7,500	7,500	-
Total charges to appropriation	<u>1,249,270</u>	<u>1,088,210</u>	<u>1,088,210</u>	<u>-</u>
Budgetary fund balances, June 30	<u>\$ 443,299</u>	<u>\$ 380,511</u>	<u>\$ 428,446</u>	<u>\$ 47,935</u>

CITY OF NEWPORT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Budgetary fund balances, July 1	\$ 168,028	\$ 95,376	\$ 95,376	\$ -
Resources (inflows):				
Intergovernmental	2,028,320	2,969,490	2,689,180	(280,310)
Interest	250	250	158	(92)
Local reimbursements	-	24,700	24,701	1
Transfers in	467,540	763,465	893,481	130,016
Amounts available for appropriation	<u>2,664,138</u>	<u>3,853,281</u>	<u>3,702,896</u>	<u>(150,385)</u>
Charges to appropriations (outflows):				
Riverfront Commons	-	-	582,222	(582,222)
Capital project expenditures:				
Street improvement program	2,075,000	2,178,850	2,106,444	72,406
Parks improvement program	588,320	1,458,400	866,575	591,825
Floodwall repairs and upgrades	-	256,790	147,623	109,167
Transfers to other funds	-	-	-	-
Total charges to appropriation	<u>2,663,320</u>	<u>3,894,040</u>	<u>3,702,864</u>	<u>191,176</u>
Budgetary fund balances, June 30	<u>\$ 818</u>	<u>\$ (40,759)</u>	<u>\$ 32</u>	<u>\$ 40,791</u>

Note: Riverfront Commons was budgeted as part of the Capital Outlay - Parks improvements program.

<p align="center">CITY OF NEWPORT, KENTUCKY</p> <p align="center">SCHEDULE OF CHANGES IN NET POSITION LIABILITY AND RELATED RATIOS</p> <p align="center">EMPLOYEES' RETIREMENT FUND</p> <p align="center">For the Year Ended June 30, 2014</p>
--

	<u>2014</u>
Total pension liability	
Service cost	\$ -
Interest	96,307
Changes of benefit terms	73,370
Difference between expected and actual experience	(280,842)
Change in assumptions	310,707
Benefit payments	<u>(243,758)</u>
Net change in total pension liability	(44,216)
Total pension liability - beginning	<u>2,046,539</u>
Total pension liability - ending	2,002,323
Plan fiduciary net position	
Contributions:	
Employer	-
Employee	-
Net investment income	116,640
Benefit payments	(243,758)
Administrative expense	-
Refunds of contributions	-
Other	<u>-</u>
Net change in plan fiduciary net position	(127,118)
Plan fiduciary net position - beginning	<u>1,280,319</u>
Plan fiduciary net position - ending	<u>1,153,201</u>
Net pension liability - ending	<u>\$ 849,122</u>
Plan fiduciary net position as a % of total pension liability	57.59%
Covered employee payroll	-
Net pension liability as a % of covered-employee payroll	N/A

<p align="center">CITY OF NEWPORT, KENTUCKY</p> <p align="center">SCHEDULE OF CHANGES IN NET POSITION LIABILITY AND RELATED RATIOS</p> <p align="center">POLICEMEN AND FIREFIGHTER'S RETIREMENT FUND</p> <p align="center">For the Year Ended June 30, 2014</p>

	<u>2014</u>
Total pension liability	
Service cost	\$ -
Interest	205,401
Changes of benefit terms	62,846
Difference between expected and actual experience	(106,169)
Change in assumptions	55,493
Benefit payments	<u>(392,370)</u>
Net change in total pension liability	(174,799)
Total pension liability - beginning	<u>2,949,722</u>
Total pension liability - ending	2,774,923
Plan fiduciary net position	
Contributions:	
Employer	-
Employee	-
Net investment income	286,710
Benefit payments	(392,370)
Administrative expense	-
Refunds of contributions	-
Other	<u>-</u>
Net change in plan fiduciary net position	(105,660)
Plan fiduciary net position - beginning	<u>2,855,930</u>
Plan fiduciary net position - ending	<u>2,750,270</u>
Net pension liability - ending	<u><u>\$ 24,653</u></u>
Plan fiduciary net position as a % of total pension liability	99.11%
Covered employee payroll	\$ -
Net pension liability as a % of covered-employee payroll	N/A

CITY OF NEWPORT, KENTUCKY
SCHEDULE OF CONTRIBUTIONS
EMPLOYEES' RETIREMENT FUND
For the Year Ended June 30, 2014

	2014
Actuarially determined contribution	\$ 51,289
Contributions in relation to actuarially determined contribution	<u>-</u>
Contribution deficiency (excess)	<u>\$ 51,289</u>
 Covered-employee payroll	 \$ -
Contributions as a percentage of covered-employee payroll	N/A

Notes

Note 1: Valuation Date: Actuarially determined contribution rates are calculated as of July 1st following the fiscal year end in which the contributions are reported.

Note 2: Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level, closed
Remaining amortization period	20 years
Asset valuation method	Market value
Cost of Living increase	0.00%
Salary increases	N/A
Investment rate of return	7.50%
Retirement age	65 years old
Mortality	In the 2014 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2000 Annuitant Mortality Tables.
Other	The discount rates were revised in 2014 in accordance with GASB 67.

CITY OF NEWPORT, KENTUCKY
SCHEDULE OF CONTRIBUTIONS
POLICEMEN AND FIREFIGHTER'S RETIREMENT FUND
For the Year Ended June 30, 2014

	2014
Actuarially determined contribution	\$ 1,528
Contributions in relation to actuarially determined contribution	<u>-</u>
Contribution deficiency (excess)	<u>\$ 1,528</u>
Covered-employee payroll	\$ -
Contributions as a percentage of covered-employee payroll	N/A

Notes

Note 1: Valuation Date: Actuarially determined contribution rates are calculated as of July 1st following the fiscal year end in which the contributions are reported.

Note 2: Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level, closed
Remaining amortization period	20 years
Asset valuation method	Market value
Cost of Living increase	0.00%
Salary increases	N/A
Investment rate of return	7.50%
Retirement age	65 years old
Mortality	In the 2014 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2000 Annuitant Mortality Tables.
Other	The discount rates were revised in 2014 in accordance with GASB 67.

SUPPLEMENTARY INFORMATION

CITY OF NEWPORT, KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	Policemen and Firefighter's Retirement Fund	Employees' Retirement Fund	Total
Assets			
Cash and cash equivalents	\$ 165,810	\$ 108,381	\$ 274,191
Investments			
Bonds	221,286	104,952	326,238
Closed end funds	328,280	101,540	429,820
Mutual funds	1,808,273	749,588	2,557,861
Market backed securities	226,621	88,741	315,362
Total Assets	<u>2,750,270</u>	<u>1,153,202</u>	<u>3,903,472</u>
Liabilities			
Accounts payable	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Position			
Held in trust for pension benefits	2,750,270	1,153,202	3,903,472
Total Net Position	<u>\$ 2,750,270</u>	<u>\$ 1,153,202</u>	<u>\$ 3,903,472</u>

CITY OF NEWPORT, KENTUCKY
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2014

	<u>Policemen and Firefighter's Retirement Fund</u>	<u>Employees' Retirement Fund</u>	<u>Total</u>
Additions			
Employer contributions	\$ -	\$ -	\$ -
Investment earnings			
Interest and dividends	131,415	53,837	185,252
Net appreciation in the fair value of investments including realized gains	<u>167,024</u>	<u>67,880</u>	<u>234,904</u>
Total investment earnings	<u>298,439</u>	<u>121,717</u>	<u>420,156</u>
Total Additions	<u>298,439</u>	<u>121,717</u>	<u>420,156</u>
Deductions			
Benefits	392,370	243,758	636,128
Administrative expense	<u>11,729</u>	<u>5,076</u>	<u>16,805</u>
Total Deductions	<u>404,099</u>	<u>248,834</u>	<u>652,933</u>
Change in Net Position	(105,660)	(127,117)	(232,777)
Net Position-Beginning Of Year	<u>2,855,930</u>	<u>1,280,319</u>	<u>4,136,249</u>
Net Position-End Of Year	<u>\$ 2,750,270</u>	<u>\$ 1,153,202</u>	<u>\$ 3,903,472</u>

CITY OF NEWPORT, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

<u>Federal Agency</u>	<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
HUD	Community Development Block Grant - Passed through Commonwealth of Kentucky Department for Local Government State-Administered Small Cities Program Newport Homeownership Development Housing Project - 19th St	14.228	11-006	\$ 975,500
DOT	Passed through Kentucky Transportation Cabinet Highway Planning and Construction Grant Carother's Road Redesign	20.205	PO2-628-1100004506	1,357,930
DOT	Passed through Kentucky Transportation Cabinet Newport Riverwalk Improvement Project Riverfront Commons Bicycle and Pedestrian Corridor	20.205	PO2-628-1100002956	692,992
DOT	Passed through Kentucky Transportation Cabinet Division of Highway Safety Programs Law Enforcement Overtime	20.600	AL-13-21	5,874
DOT	Passed through Kentucky Transportation Cabinet Division of Highway Safety Programs Law Enforcement Overtime	20.600	AL-14-24	4,702
FEMA	Staffing for Adequate Fire and Emergency Response (SAFER) Grant Department of Homeland Security Grant Programs Directorate	97.083	EMW-2009-FH-00204	219,503
FEMA	Passed through Kentucky Office of Homeland Security Police Radio Grant	97.067	PO2-094-1400002806	<u>24,984</u>
Total Federal Expenditures:				<u>\$ 3,281,485</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Newport, Kentucky and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of **OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations**.



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the Commission
City of Newport, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Newport, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Newport, Kentucky's basic financial statements, and have issued our report thereon dated February 17, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Newport, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Newport, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Newport, Kentucky's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Newport, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC

February 17, 2015



Certified Public Accountants and Consultants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Mayor and
Members of the Commission
City of Newport, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Newport, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Newport, Kentucky's major federal programs for the year ended June 30, 2014. The City of Newport, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Newport, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Newport, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Newport, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Newport, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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Report on Internal Control over Compliance

Management of the City of Newport, Kentucky is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Newport, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Newport, Kentucky's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ray, Foley, Hensley, & Company

Ray, Foley, Hensley, & Company, PLLC
February 17, 2015

CITY OF NEWPORT, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
- Significant deficiencies identified?	<u> </u> Yes	<u> X </u> None reported

Noncompliance material to financial statements noted

<u> </u> Yes	<u> X </u> No
-----------------	-----------------

Federal Awards

Internal Control Over Major Programs:

- Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
- Significant deficiencies identified?	<u> </u> Yes	<u> X </u> None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133:

<u> </u> Yes	<u> X </u> No
-----------------	-----------------

Identification of major programs:

<u>Federal Program or Cluster</u>	<u>CFDA No.</u>
Highway Planning and Construction Grant	20.205
Community Development Block Grants-State Administered Small Cities	14.228

Dollar threshold used to distinguish between type A & type B programs: \$ 300,000

Auditee qualified as low-risk auditee?

<u> </u> Yes	<u> X </u> No
-----------------	-----------------

II. FINDINGS - FINANCIAL STATEMENT AUDIT

No matters were reported.

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

No matters were reported.

IV. PRIOR YEAR FINDINGS

None.

STATISTICAL SECTION

STATISTICAL SECTION

The Statistical Section of the City of Newport's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding the information in the financial statements, notes and supplementary information as it pertains to the overall financial health of the City.

Section 1: Financial Trend Data:

Pages 79 – 83

These tables contain trend information to help the reader understand how the City's financial status has changed in recent years.

Section 2: Revenue Capacity:

Pages 84 – 88

These tables contain information to help the reader assess the City's most significant local sources of revenue.

Section 3: Debt Capacity:

Pages 89 – 93

These tables include information to help the reader assess the affordability of the City's current outstanding debt and its ability to issue additional debt in the future.

Section 4: Demographic and Economic Information:

Page 94

This table shows demographic and economic indicators to help the reader understand the local environment in which the City's financial activities take place.

Section 5: Operating Information:

Pages 95 – 97

These tables contain service and infrastructure data to help the reader understand how the information contained in this report relates to the City's services and activities.

CITY OF NEWPORT, KENTUCKY
NET POSITION BY COMPONENT
Last Nine Fiscal Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities									
Net investment in capital assets	\$ 7,261,893	\$ 8,528,316	\$ 3,655,959	\$ (2,513,836)	\$ (1,764,812)	\$ 171,645	\$ 2,033,413	\$ 4,268,083	\$ 7,779,586
Restricted	15,931	62,821	5,716	4,191,255	3,810,281	464,478	2,126,793	1,351,158	1,042,601
Unrestricted	4,439,581	1,562,517	2,402,138	1,670,995	381,435	966,916	821,010	673,121	2,413,859
Total governmental activities net position	\$ 11,717,405	\$ 10,153,654	\$ 6,063,813	\$ 3,348,414	\$ 2,426,904	\$ 1,603,039	\$ 4,981,216	\$ 6,292,362	\$ 11,236,046
Business-type activities									
Net investment in capital assets	\$ (7,342,072)	\$ (5,885,737)	\$ (4,764,536)	\$ (3,310,768)	\$ (1,782,001)	\$ 436,766	\$ 1,855,533	\$ 1,524,302	\$ 1,839,167
Restricted	2,520,409	2,816,988	2,609,304	5,824,505	5,916,071	5,675,216	6,183,375	8,056,299	4,865,770
Unrestricted	4,998,781	4,668,726	5,010,547	944,617	1,066,343	831,923	782,140	319,735	103,014
Total business-type activities net position	\$ 177,118	\$ 1,599,977	\$ 2,855,315	\$ 3,458,354	\$ 5,200,413	\$ 6,943,905	\$ 8,821,048	\$ 9,900,336	\$ 6,807,951
Primary government									
Net investment in capital assets	\$ (80,179)	\$ 2,642,579	\$ (1,108,577)	\$ (5,824,604)	\$ (3,546,813)	\$ 608,411	\$ 3,888,946	\$ 5,792,385	\$ 9,618,753
Restricted	2,536,340	2,879,809	2,615,020	10,015,760	9,726,352	6,139,694	8,310,168	9,407,457	5,908,371
Unrestricted	9,438,362	6,231,243	7,412,685	2,615,612	1,447,778	1,798,839	1,603,150	992,856	2,516,873
Total primary government net position	\$ 11,894,523	\$ 11,753,631	\$ 8,919,128	\$ 6,806,768	\$ 7,627,317	\$ 8,546,944	\$ 13,802,264	\$ 16,192,698	\$ 18,043,997

CITY OF NEWPORT, KENTUCKY
CHANGES IN NET POSITION
Last Nine Fiscal Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses									
Governmental activities:									
General government	\$ 2,596,498	\$ 2,488,790	\$ 1,965,997	\$ 1,922,031	\$ 1,868,549	\$ 1,778,054	\$ 1,499,391	\$ 1,747,163	\$ 1,811,096
Police	5,915,862	5,979,035	5,497,289	5,554,307	5,555,965	5,794,501	4,411,540	4,958,910	4,864,165
Fire/EMS	4,698,518	4,571,662	4,490,843	4,576,717	4,404,278	4,524,310	3,928,970	4,287,637	4,325,418
Development services	-	564,418	542,138	588,128	515,562	1,762,281	806,179	699,017	1,712,783
Community services	4,414,406	3,798,517	4,722,306	4,802,442	2,769,201	2,574,489	2,208,272	2,587,440	3,124,678
Municipal complex	356,661	357,061	321,582	331,945	311,207	313,053	348,160	346,430	307,821
Interest on long-term debt	1,062,697	1,245,842	1,284,127	1,236,834	1,194,156	1,195,131	1,131,534	1,059,359	974,019
Total governmental activities expenses	19,044,642	19,005,325	18,824,282	19,012,404	16,618,918	17,941,819	14,334,046	15,685,956	17,119,980
Business-type activities:									
Refuse	778,843	763,495	831,708	889,466	932,132	1,018,014	1,078,905	1,084,372	1,112,668
Newport on the Levee	7,812,570	6,997,513	6,825,090	7,142,808	6,067,222	6,117,063	5,779,336	5,996,105	8,514,839
Total business-type activities expenses	8,591,413	7,761,008	7,656,798	8,032,274	6,999,354	7,135,077	6,858,241	7,080,477	9,627,507
Total primary government expenses	\$ 27,636,055	\$ 26,766,333	\$ 26,481,080	\$ 27,044,678	\$ 23,618,272	\$ 25,076,896	\$ 21,192,287	\$ 22,766,433	\$ 26,747,487
Program Revenues									
Governmental activities:									
Charges for services:									
General government	\$ 170,949	\$ 174,424	\$ 189,617	\$ 186,793	\$ 329,815	\$ 213,501	\$ 391,529	\$ 261,166	\$ 231,970
Police	256,897	249,611	328,866	820,623	736,728	292,558	806,560	338,300	242,472
Fire/EMS	398,530	422,292	449,407	825,536	767,974	499,237	934,907	457,831	477,499
Development services	-	-	-	41,801	43,300	-	62,337	12,885	15,055
Community services	196,148	233,617	140,310	251,152	256,671	157,893	219,322	121,603	50,139
Municipal complex	-	-	-	-	-	-	-	-	-
Operating grants and contributions	374,914	753,368	713,497	1,158,384	529,478	657,100	673,362	1,158,359	1,098,265
Capital grants and contributions	276,078	297,093	515,859	443,365	541,336	2,159,270	1,896,717	1,813,415	4,176,657
Total governmental activities program revenues	1,673,516	2,130,405	2,337,556	3,727,654	3,205,302	3,979,559	4,984,734	4,163,559	6,292,057
Business-type activities:									
Charges for services:									
Refuse	779,900	791,830	892,625	882,699	1,054,874	1,103,387	1,149,023	1,211,843	1,234,637
Newport on the Levee	7,763,622	7,958,476	7,607,245	6,859,790	7,405,629	7,509,365	7,321,280	7,507,103	4,525,184
Operating grants and contributions	-	-	-	-	-	-	-	-	-
Capital grants and contributions	14,289,593	-	-	571,759	-	-	-	-	-
Total business-type activities program revenues	22,833,115	8,750,306	8,499,870	8,314,248	8,460,503	8,612,752	8,470,303	8,718,946	5,759,821
Total primary government program revenues	\$ 24,506,631	\$ 10,880,711	\$ 10,837,426	\$ 12,041,902	\$ 11,665,805	\$ 12,592,311	\$ 13,455,037	\$ 12,882,505	\$ 12,051,878

CITY OF NEWPORT, KENTUCKY
CHANGES IN NET POSITION
Last Nine Fiscal Years

	(Continued)								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net (Expense)/Revenue									
Governmental activities	\$ (17,371,126)	\$ (16,874,920)	\$ (16,486,726)	\$ (15,284,750)	\$ (13,413,616)	\$ (13,962,260)	\$ (9,349,312)	\$ (11,522,397)	\$ (10,827,923)
Business-type activities	14,241,702	989,298	843,072	281,974	1,461,149	1,477,675	1,612,062	1,638,469	(3,867,686)
Total primary government net (expense)/revenue	\$ (3,129,424)	\$ (15,885,622)	\$ (15,643,654)	\$ (15,002,776)	\$ (11,952,467)	\$ (12,484,585)	\$ (7,737,250)	\$ (9,883,928)	\$ (14,695,609)
General Revenues and Other Changes in Net Position									
Governmental activities:									
Taxes									
Property taxes, levied for general purposes	\$ 1,263,745	\$ 1,343,586	\$ 1,405,770	\$ 1,533,702	\$ 1,615,235	\$ 1,721,021	\$ 1,980,029	\$ 1,953,820	\$ 3,727,354
Taxes, levied for bank deposits	48,132	48,284	49,535	47,354	46,019	58,323	49,251	50,839	61,721
Tangible	196,798	168,953	194,007	224,687	194,245	213,579	229,851	254,259	252,477
Payroll	4,760,875	5,035,332	5,343,994	5,144,845	4,939,656	5,055,781	4,960,332	4,887,904	5,276,794
Gross receipts franchise	1,154,993	1,283,472	1,477,946	1,447,271	1,417,593	1,412,842	1,435,960	1,590,134	1,671,196
Insurance premiums	1,974,652	2,198,105	1,957,783	2,571,317	2,432,879	2,515,644	2,268,680	2,763,745	2,981,708
Other permits	376,789	578,782	544,642	484,804	507,129	539,701	580,911	621,522	631,232
Franchise fees	710,941	658,485	725,774	708,161	696,490	722,659	698,698	651,868	701,437
Other uses of property	1,859,191	376,655	299,300	263,543	547,917	845,530	490,683	445,329	517,532
Grants and contributions - non-program specific	120,846	190,756	9,412	20,594	16,168	67,939	38,192	15,645	-
Interest	131,832	289,354	275,089	52,645	2,515	1,633	2,216	2,124	2,559
Miscellaneous	330,295	337,824	80,463	39,534	39,339	25,124	12,470	13,814	13,385
Gain (loss) on sale of capital assets	-	2,773,911	-	-	-	-	-	-	(49,000)
Transfers	18,778	27,670	33,170	30,894	36,921	(41,381)	(19,784)	(17,585)	(16,788)
Prior period adjustment	-	-	-	-	-	-	-	(399,875)	-
Total governmental activities	12,947,867	15,311,169	12,396,885	12,569,351	12,492,106	13,138,395	12,727,489	12,833,543	15,771,607
Business-type activities:									
Grants and contributions - non-program specific	-	-	-	-	-	-	-	-	-
Interest	436,369	461,231	443,491	351,959	317,831	304,436	305,297	303,561	304,395
Gain (loss) on sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers	(18,778)	(27,670)	(31,225)	(30,894)	(36,921)	(38,619)	(40,216)	(42,415)	(43,212)
Prior period adjustment	-	-	-	-	-	-	-	(820,327)	(514,117)
Total business-type activities	417,591	433,561	412,266	321,065	280,910	265,817	265,081	(559,181)	(252,934)
Total primary government	\$ 13,365,458	\$ 15,744,730	\$ 12,809,151	\$ 12,890,416	\$ 12,773,016	\$ 13,404,212	\$ 12,992,570	\$ 12,274,362	\$ 15,518,673
Change in net position									
Governmental activities	\$ (4,423,259)	\$ (1,563,751)	\$ (4,089,841)	\$ (2,715,399)	\$ (921,510)	\$ (823,865)	\$ 3,378,177	\$ 1,311,146	\$ 4,943,684
Business-type activities	14,659,293	1,422,859	1,255,338	603,039	1,742,059	1,743,492	1,877,143	1,079,288	(4,120,620)
Total change in net position	\$ 10,236,034	\$ (140,892)	\$ (2,834,503)	\$ (2,112,360)	\$ 820,549	\$ 919,627	\$ 5,255,320	\$ 2,390,434	\$ 823,064

Note: The city began to report accrual information when it implemented GASB 34 in fiscal year 2002.

CITY OF NEWPORT, KENTUCKY
FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General fund										
Restricted, Committed, etc.	\$ 866,984	\$ 853,669	\$ 4,220	\$ 3,024	\$ 2,739	\$ (1,856)	\$ 233,037	\$ 102,597	\$ 99,797	\$ 40,473
Unassigned	1,287,032	151,143	279,413	136,974	88,543	(695,953)	(546,959)	(51,588)	178,062	2,293,558
Total general fund	\$ 2,154,016	\$ 1,004,812	\$ 283,633	\$ 139,998	\$ 91,282	\$ (697,809)	\$ (313,922)	\$ 51,009	\$ 277,859	\$ 2,334,031
All other governmental funds										
Restricted, Committed, etc.	\$ -	\$ -	\$ 4,642,603	\$ 3,145,000	\$ 500,434	\$ 501,062	\$ 920,584	\$ 599,416	\$ 487,967	\$ 428,478
Unassigned, reported in:										
Revolving loan fund	-	-	-	-	-	-	-	-	(29,399)	-
Special revenue funds	2,095,238	2,134,883	1,900,123	392,264	337,993	342,182	-	-	-	-
Capital projects funds	805,911	612,702	12,893	1,564	83	85	-	-	-	-
Total all other governmental funds	\$ 2,901,149	\$ 2,747,585	\$ 6,555,619	\$ 3,538,828	\$ 838,510	\$ 843,329	\$ 920,584	\$ 599,416	\$ 458,568	\$ 428,478

CITY OF NEWPORT, KENTUCKY
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues										
Taxes	\$ 1,445,290	\$ 1,505,109	\$ 1,539,240	\$ 1,649,312	\$ 1,805,743	\$ 1,855,499	\$ 1,992,923	\$ 2,259,131	\$ 2,258,918	\$ 4,019,952
Licenses and permits	8,660,858	8,267,309	9,095,691	9,324,365	9,648,237	9,297,983	9,523,968	9,245,882	9,863,305	10,560,930
Intergovernmental	841,136	771,838	1,241,217	1,364,384	1,651,302	989,821	2,770,299	1,759,750	2,408,022	4,885,470
Fines and forfeitures	158,022	189,634	165,942	186,544	195,432	144,105	160,459	177,586	159,381	102,172
Charges for services	963,781	922,551	975,884	928,410	938,792	906,455	1,002,730	1,039,922	995,904	983,802
Uses of property	1,738,783	4,839,295	1,422,234	1,752,278	1,522,057	1,260,958	1,568,188	1,166,992	1,712,093	1,328,814
Interest	153,460	129,508	286,254	273,407	52,156	2,228	1,357	1,980	1,907	2,382
Miscellaneous	280,533	344,361	300,536	294,014	525,020	403,302	363,137	1,039,320	93,739	288,491
Total revenues	14,241,863	16,969,605	15,026,998	15,772,714	16,338,739	14,860,351	17,383,061	16,690,563	17,493,269	22,172,013
Expenditures										
General government	2,443,082	2,449,502	2,302,981	1,897,548	1,679,417	1,611,293	1,549,703	1,521,333	1,606,362	1,628,804
Police	5,106,507	5,392,287	5,468,335	5,107,781	4,857,106	4,803,983	4,413,309	4,495,014	4,699,789	4,600,633
Fire/EMS	3,984,356	4,336,683	4,235,936	4,238,323	3,984,505	3,777,219	3,827,032	4,006,267	4,002,085	4,012,694
Development services	-	-	505,998	519,473	494,205	443,266	1,758,876	775,560	651,684	1,632,634
Community services	3,022,491	3,073,803	2,592,723	3,568,847	3,602,396	1,714,048	1,373,411	1,435,138	1,695,088	2,228,436
Municipal complex	217,047	207,909	207,140	164,620	180,328	174,420	179,111	215,057	216,736	176,882
Capital outlay	1,749,842	1,664,108	12,698,731	334,637	1,812,623	326,675	919,631	1,475,024	1,775,298	3,169,052
Debt service										
Principal	12,976,794	13,122,824	13,601,278	1,788,551	1,701,049	1,704,423	1,653,815	1,561,530	1,614,116	1,661,771
Interest	996,231	992,382	1,169,403	1,257,713	1,244,573	1,202,585	1,205,650	1,142,095	1,070,524	918,237
Debt issuance cost	-	-	223,214	-	-	-	-	-	-	-
Total expenditures	30,496,350	31,239,498	43,005,739	18,877,493	19,556,202	15,757,912	16,880,538	16,627,018	17,331,682	20,029,143
Excess (deficiency) of revenues over (under) expenditures	(16,254,487)	(14,269,893)	(27,978,741)	(3,104,779)	(3,217,463)	(897,561)	502,523	63,545	161,587	2,142,870
Other financing sources (uses)										
Proceeds from long-term debt	12,050,000	13,200,140	12,535,000	162,464	437,535	76,369	-	-	-	8,042,767
Refunding of long-term debt										(7,987,155)
Bond issue costs on refunded debt										(55,612)
Sale of capital assets	-	-	26,368,096	-	-	-	-	-	-	-
Discount on debt issued	-	-	(55,170)	-	-	-	-	-	-	-
Transfers in	14,172,501	12,931,112	15,323,529	2,458,413	1,235,358	446,129	220,231	163,659	809,425	1,047,607
Transfers out	(14,154,989)	(13,164,037)	(15,540,859)	(2,676,524)	(1,204,464)	(409,208)	(261,612)	(183,443)	(885,010)	(1,164,395)
Total other financing sources (uses)	12,067,512	12,967,215	38,630,596	(55,647)	468,429	113,290	(41,381)	(19,784)	(75,585)	(116,788)
Special items										
Pension contributions from bond issue	-	-	(7,565,000)	-	-	-	-	-	-	-
Total special items	-	-	(7,565,000)	-	-	-	-	-	-	-
Net change in fund balances	\$ (4,186,975)	\$ (1,302,678)	\$ 3,086,855	\$ (3,160,426)	\$ (2,749,034)	\$ (784,271)	\$ 461,142	\$ 43,761	\$ 86,002	\$ 2,026,082
Debt service as a percentage of non capital expenditures	48.61%	47.73%	49.47%	16.43%	16.60%	18.84%	17.92%	17.84%	17.26%	15.30%

CITY OF NEWPORT, KENTUCKY
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year Ended June 30	Residential Property	Real Property Commercial Property	Public Service	Personal Property Personal Property	Public Service	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2005	383,424,777	405,079,389	10,471,093	56,875,343	9,172,030	243,132,251	621,890,381	2.13	865,022,632	71.89%
2006	393,741,645	414,688,068	11,068,372	51,830,315	14,759,324	247,266,197	638,821,527	2.12	886,087,724	72.09%
2007	410,657,090	432,419,682	12,034,317	50,525,807	10,157,031	257,658,871	658,135,056	2.12	915,793,927	71.86%
2008	431,942,010	433,655,089	11,677,985	50,083,985	13,768,277	254,897,116	686,230,230	2.20	941,127,346	72.92%
2009	497,836,401	479,060,956	11,880,455	47,009,088	13,800,301	287,734,430	761,852,771	2.11	1,049,587,201	72.59%
2010	494,347,123	622,782,299	11,761,300	50,828,905	14,466,985	430,936,055	763,250,557	2.25	1,194,186,612	63.91%
2011	490,644,819	601,321,953	13,649,405	55,475,343	15,095,951	412,209,452	763,978,019	2.39	1,176,187,471	64.95%
2012	484,611,603	602,987,017	14,079,362	59,036,972	15,374,007	414,985,234	761,103,727	2.52	1,176,088,961	64.71%
2013	468,149,876	617,232,472	15,360,965	58,715,730	16,518,663	431,805,365	744,172,341	2.58	1,175,977,706	63.28%
2014	463,665,282	611,205,897	16,567,680	57,345,597	18,064,234	435,075,846	731,772,844	2.64	1,166,848,690	62.71%

**CITY OF NEWPORT, KENTUCKY
PROPERTY TAX RATES (1)
DIRECT AND OVERLAPPING GOVERNMENTS(2)
Last Ten Fiscal Years**

Fiscal Year	City of Newport	Campbell County	Overlapping Rates		School District	Total Direct and Overlapping Rates
			State	Other		
2005	2.130	1.050	1.310	1.189	8.810	14.489
2006	2.120	1.070	1.310	1.199	8.800	14.499
2007	2.120	1.100	1.280	1.195	8.770	14.465
2008	2.200	1.120	1.240	1.196	8.770	14.526
2009	2.110	1.160	1.220	1.118	8.200	13.808
2010	2.250	1.240	1.220	1.158	8.610	14.478
2011	2.390	1.280	1.220	1.198	8.860	14.948
2012	2.520	1.360	1.220	1.238	9.270	15.608
2013	2.580	1.430	1.220	1.318	9.510	16.058
2014	2.640	1.500	1.220	1.308	9.770	16.438

(1) Per \$1000 assessed valuation

(2) Overlapping rates are those of the county government that apply to property owners living in the City of Newport.

**CITY OF NEWPORT
PRINCIPAL PROPERTY TAXPAYERS
June 30, 2014**

Taxpayer	2014			2005		
	Taxable Assessed Valuation	Rank	Percentage of Total Taxable Assessed Valuation	Taxable Assessed Valuation	Rank	Percentage of Total Taxable Assessed Valuation
Riverfront Place	16,400,000	1	2.24%	14,200,000	1	2.28%
CPX Newport Commercial Devp LLC	11,150,000	2	1.52%	-		0.00%
Riverchase Properties LLC	6,869,834	3	0.94%	6,575,000	3	1.06%
American Diversified Development	6,447,503	4	0.88%	5,632,405	4	0.91%
Kroger Limited Partnership	6,336,203	5	0.87%	-		0.00%
Kentucky Properties Company	5,950,000	6	0.81%	5,100,000	5	0.82%
Louis Trauth Dairy	5,703,437	7	0.78%	8,289,000	2	1.33%
Target DBA Target Store # 2483	5,336,135	8	0.73%	-		0.00%
Newport Hotel Associates LLC	5,040,000	9	0.69%	4,474,400	6	0.72%
Joslin Enterprises	3,800,000	10	0.52%	-		0.00%
Gator Newport Partners LTD	-			4,400,900	7	0.71%
Wiedemann Square LTD	-			3,600,000	8	0.58%
Joslin Enterprises	-			2,952,500	9	0.47%
Watertower Hemmer II	-			2,886,865	10	0.46%
TOTAL	<u>\$73,033,112</u>		<u>9.98%</u>	<u>\$58,111,070</u>		<u>9.34%</u>

CITY OF NEWPORT, KENTUCKY PRINCIPAL EMPLOYERS BY PAYROLL TAXES PAID Current Year and Six Years Ago				
Taxpayer	2014		2008	
	Rank	Percentage of Total City Payroll Taxes	Rank	Percentage of Total City Payroll Taxes
Newport Board of Education	1	5.94%	1	7.66%
Commonwealth of Kentucky	2	5.27%	2	4.83%
Kroger # 423	5	3.44%		0.00%
City of Newport	4	3.19%	5	3.69%
Baptist Home	5	2.89%	7	2.46%
Campbell County Fiscal Court	6	2.47%	8	2.44%
Newport Aquarium	7	2.05%	9	1.61%
I-Wireless	8	1.58%		0.00%
Brighton Center	9	1.54%		0.00%
Divisions	10	1.27%		0.00%
Trauth Dairy			3	4.56%
Humana Insurance			4	3.79%
Xanodyne			6	3.27%
Gerner & Kearns			10	1.39%
		29.65%		35.71%

CITY OF NEWPORT, KENTUCKY
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal year of the Levy		Collections in Subsequent years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percentage of Levy
2005	1,353,162	1,308,432	96.7%	52,068	1,360,500	100.5%
2006	1,419,361	1,365,813	96.2%	58,846	1,424,659	100.4%
2007	1,464,359	1,406,823	96.1%	44,303	1,451,126	99.1%
2008	1,581,477	1,499,031	94.8%	58,542	1,557,573	98.5%
2009	1,664,161	1,613,350	96.9%	89,965	1,703,315	102.4%
2010	1,767,539	1,692,413	95.7%	46,585	1,738,999	98.4%
2011	1,874,485	1,777,769	94.8%	66,668	1,844,437	98.4%
2012	1,971,360	1,908,201	96.8%	76,526	1,984,727	100.7%
2013	1,944,338	1,862,730	95.8%	108,596	1,971,325	101.4%
2014	1,973,958	1,870,998	94.8%	76,343	1,947,341	98.7%

**CITY OF NEWPORT, KENTUCKY
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years
(amounts expressed in thousands)**

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt limit	\$ 62,189	\$ 63,882	\$ 65,814	\$ 68,623	\$ 76,185	\$ 76,325	\$ 76,398	\$ 76,110	\$ 72,902	\$ 73,177
Total debt applicable to limit	17,775	17,150	28,760	(27,540)	(26,250)	(24,910)	(23,535)	(23,969)	(20,645)	(19,270)
Legal debt margin	44,414	46,732	37,054	96,163	102,435	101,235	99,933	100,079	93,547	92,447
Total debt applicable to the limit as a percentage of debt limit	28.58%	26.85%	43.70%	-40.13%	-34.46%	-32.64%	-30.81%	-31.49%	-28.32%	-26.33%

Legal Debt Margin Calculation for Fiscal Year

Total taxable assessed value	<u>\$ 686,230</u>	<u>\$ 761,853</u>	<u>\$ 763,251</u>	<u>\$ 763,978</u>	<u>\$ 761,104</u>	<u>\$ 729,021</u>	<u>\$ 731,773</u>
Debt limit (10% of total taxable assessed va	\$ 68,623	\$ 76,185	\$ 76,325	\$ 76,398	\$ 76,110	\$ 72,902	\$ 73,177
Less Debt applicable to limit:	<u>(27,540)</u>	<u>(26,250)</u>	<u>(24,910)</u>	<u>(23,535)</u>	<u>(23,969)</u>	<u>(20,645)</u>	<u>(19,270)</u>
Legal debt margin	<u>\$ 41,083</u>	<u>\$ 49,935</u>	<u>\$ 51,415</u>	<u>\$ 52,863</u>	<u>\$ 52,141</u>	<u>\$ 52,257</u>	<u>\$ 53,908</u>

Note: Under KRS 66.041, the City of Newport's outstanding general obligation debt should not exceed 10 percent of total taxable assessed value.

CITY OF NEWPORT, KENTUCKY
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Governmental Activities			Business-type Activities		Total Primary Government	Percentage to Personal Income	Per Capita
	General Obligation Bonds	Notes Payable	Capital Leases	Revenue Bonds	Notes Payable			
2005	17,775,000	14,424,177	491,120	50,315,000	10,175,307	93,180,604	0.02%	5,495
2006	17,150,000	14,270,062	1,347,551	47,915,000	-	80,682,613	0.02%	4,758
2007	28,760,000	6,163,849	977,486	45,170,000	-	81,071,335	0.02%	4,781
2008	27,540,000	2,377,346	595,439	42,185,000	-	72,697,785	0.02%	4,264
2009	26,250,000	2,189,622	372,113	39,155,000	-	67,966,735	0.03%	3,987
2010	24,910,000	2,066,621	207,471	36,050,000	-	63,234,092	0.03%	3,709
2011	23,535,000	1,941,892	53,385	32,740,000	-	58,270,277	0.03%	3,418
2012	22,115,000	1,815,410	38,337	29,260,000	-	53,228,747	0.03%	3,122
2013	20,645,000	1,687,152	22,479	28,015,000	-	50,369,631	0.03%	2,955
2014	19,267,767	1,557,091	5,768	26,660,000	-	47,490,626	0.04%	2,786

CITY OF NEWPORT, KENTUCKY
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years

Governmental Activities

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita
2005	17,775,000	2.05%	1,043
2006	17,150,000	1.94%	1,006
2007	28,760,000	3.14%	1,687
2008	27,540,000	2.93%	1,615
2009	26,250,000	2.50%	1,540
2010	24,910,000	2.09%	1,461
2011	23,535,000	2.00%	1,531
2012	22,115,000	1.88%	1,439
2013	20,645,000	1.77%	1,337
2014	19,267,767	1.65%	1,248

CITY OF NEWPORT, KENTUCKY
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
June 30, 2014

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable (3)	Estimated Share of Overlapping Debt
Debt repaid with property taxes: School	(1) \$ -	98.99%	\$ -
Debt repaid with property taxes: County	(2) \$ 22,742,536	13.07%	2,971,375
Subtotal overlapping debt			<u>2,971,375</u>
City of Newport direct debt			<u>19,267,767</u>
Total direct and overlapping			<u><u>\$ 22,239,142</u></u>

Source (1) Newport Board of Education

(2) Campbell County Fiscal Court

(3) The percentage overlapping debt applicable is estimated using taxable assessed property values.

Applicable percentages were estimated by determining the portion of the taxable assessed value that is within the City of Newport and dividing it by the county's/school's total taxable assessed value.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Newport. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

**CITY OF NEWPORT, KENTUCKY
PLEDGED REVENUE COVERAGE
Last Ten Fiscal Years**

Newport on the Levee

Revenue Bonds

Fiscal Year	Gross Revenues⁽¹⁾	Operating Expenses⁽²⁾	Net Revenue Available for Debt Service	Debt Service		Coverage
				Principal	Interest	
2005	8,918,437	1,684,890	7,233,547	2,095,000	4,666,579	1.07
2006	8,195,871	1,241,696	6,954,175	2,400,000	4,442,952	1.02
2007	8,410,473	1,247,975	7,162,498	2,745,000	4,057,575	1.05
2008	8,043,630	1,376,131	6,667,499	2,985,000	3,756,994	0.99
2009	7,782,283	2,011,613	5,770,670	3,030,000	3,454,263	0.89
2010	7,723,152	1,253,834	6,469,318	3,105,000	3,181,541	1.03
2011	7,509,365	1,593,848	5,915,517	3,310,000	2,891,367	0.95
2012	7,321,280	1,546,521	5,774,759	2,995,000	2,600,966	1.03
2013	7,810,664	1,996,457	5,814,207	1,245,000	2,423,415	1.58
2014	4,829,082	1,686,164	3,142,918	1,355,000	2,314,541	0.86

(1) Total Revenues (including interest)

(2) Total operating expenses exclusive of depreciation

CITY OF NEWPORT, KENTUCKY
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income	Median Income (2)	Median Age (3)	Newport Independent Public School Enrollment (4)	Unemployment Rate (5)
2005	17,048	548,826,264	32,193	35.2	2,191	5.9%
2006	17,048	586,178,432	34,384	35.2	1,977	5.3%
2007	17,048	616,898,928	36,186	35.2	1,815	5.2%
2008	17,048	623,240,784	36,558	35.2	1,733	6.2%
2009	17,048	617,734,280	36,235	35.4	1,780	10.1%
2010	17,048	613,165,416	35,967	35.4	1,955	10.4%
2011	15,373	576,964,063	37,531	34.0	1,786	10.0%
2012	15,373	576,964,063	37,531	34.0	1,691	7.7%
2013	15,436	535,166,120	34,670	35.9	1,824	7.5%
2014	15,438	540,330,000	35,000	36.0	1,979	8.1%

(1) Census Bureau updated estimate and State Data Center

(2) U.S. Census Bureau

(3) U.S. Census Bureau

(4) Newport Independent School District

(5) Bureau of Labor Statistics Data and KY Department for Employment Services
using Campbell County data.

CITY OF NEWPORT, KENTUCKY
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	Full-Time Equivalent Employees as of June 30									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Function/Program										
General Government										
Office of the City Manager	11	10	7	7	6	6	6	7	6	6
Finance & Administration	11	11	10	10	7	7	6	6	5	5
Public Safety										
Police										
Sworn	50	50	50	49	47	42	45	43	41	42
Civilian	7	6	4	4	4	4	4	6	4	5
Fire										
Firefighters & Officers	37	37	37	37	37	35	37	37	37	37
Civilian	1	1	1	1	1	1	1	1	1	1
Development Services										
Administration	-	-	3	3	3	2	2	2	2	2
Code Enforcement	-	-	4	4	4	4	2	4	2	2
Community Services										
Administration	-	-	2	2	2	2	2	2	2	2
Code Enforcement	6	7	-	-	-	-	-	-	-	-
Maintenance	15	15	14	14	13	12	7	7	9	9
Parks and Recreation	4	4	3	1	-	-	-	-	-	-
Total	<u>142</u>	<u>141</u>	<u>135</u>	<u>132</u>	<u>124</u>	<u>115</u>	<u>112</u>	<u>115</u>	<u>109</u>	<u>111</u>

Source: Finance & Administration Department (Budget Documents)

CITY OF NEWPORT, KENTUCKY
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	Fiscal Year									
Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Police										
Physical arrests	5,059	3,374	3,807	3,736	3,408	3,626	5,364	5,177	3,025	4,102
Parking violations	10,962	10,094	10,102	8,363	10,827	8,336	9,196	7,607	7,604	5,377
Traffic violations	1,596	2,429	1,940	1,482	1,063	1,126	1,979	1,075	2,627	3,977
Fire										
Number of calls answered:										
Fire	1,155	1,222	1,431	751	1,581	1,493	1,493	1,571	1,629	1,637
Emergency Medical Services	3,033	3,195	3,576	4,201	3,400	3,311	3,313	3,555	3,336	3,435
Inspections	1,426	1,643	1,608	1,592	1,509	1,198	943	875	904	744
Highways and streets										
Street resurfacing (miles)	0.2	-	0.3	-	-	-	-	-	0.5	1.2
Potholes repaired	5,527	4,576	5,126	6,359	5,016	N/A	N/A	N/A	4,321	4,269
Culture and recreation										
Athletic field permits issued	N/A	315	340	275	280	302	338	258	80	77
Pool admissions	4,392	4,257	2,167	1,148	3,793	3,479	6,474	12,223	9,998	8,557
Pool passes	1,536	1,506	802	15	9	24	31	45	230	327
Facilities and services not included in this reporting entity:										
Education:										
Number of elementary school instructors	92	81	91	87	84	82	84	74	76	79
Number of secondary school instructors	84	80	90	79	72	72	79	76	81	85
Water										
Number of service connections	5,925	6,240	6,090	5,940	5,750	5,093	6,286	6,192	6,108	6,104
Average daily consumption (thousands of gallons)	2,500	2,500	2,500	2,500	2,500	2,400	2,300	2,300	2,300	2,300
Sanitation										
Average daily sewage treatment (thousands of gallons)	35,100	35,200	35,200	35,200	34,600	35,880	36,970	40,850	35,700	35,800

CITY OF NEWPORT, KENTUCKY
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	Fiscal Year									
Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public safety										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	38	40	43	41	41	34	34	32	41	41
Fire stations	2	2	2	2	2	2	2	2	2	2
Highways and streets										
Street (miles)	35	35	35	35	35	35	35	35	35	35
Streetlights	1,124	1,130	1,107	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Culture and recreation										
Parks acreage	51.74	51.79	51.79	51.79	51.79	51.79	51.79	51.79	51.79	51.79
Parks	13	13	13	13	13	13	12	12	12	12
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts	3	3	3	3	3	3	3	3	3	3
Ball fields	6	6	6	6	6	6	6	6	6	6
Facilities and services not included in this reporting entity:										
Education:										
Number of elementary schools	3	3	3	3	3	3	2	2	2	2
Number of secondary schools	2	2	2	2	2	2	2	2	2	2
Water										
Water mains (miles)	58.94	58.94	47.21	45.21	51.60	51.30	51.30	53.42	53.50	53.50
Fire hydrants	390	390	390	425	530	455	440	464	434	434
Maximum daily capacity (thousands of gallons)	10,500	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Sanitation										
Contained sanitary/storm sewers (mile)	1,500	1,600	1,600	1,600	1,600	1,600	1,700	1,700	1,700	1,966
Number of treatment plants	1	1	1	1	1	1	1	11	11	7
Maximum daily treatment capacity (thousands of gallons)	46,500	46,500	46,500	46,500	46,500	46,500	51,600	71,500	70,500	70,600